MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information

For the Years Ended June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Massachusetts Clean Water Trust
Boston, Massachusetts

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Massachusetts Clean Water Trust (the Trust), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Trust as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note 2 to the financial statements, the Trust restated beginning net position of the business-type activities as of July 1, 2021 for the change to the effective interest method of amortization. Our opinions were not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Trustees
Massachusetts Clean Water Trust

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
October 18, 2023

Introduction

The Massachusetts Clean Water Trust (the Trust) is a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth), created by Chapter 275 of the Acts of 1989 and is governed by Chapter 29C of the Massachusetts General Laws. Pursuant to an Operating Agreements between the United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (MassDEP), and the Trust, the Trust administers the Commonwealth's Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs.

The Trust is administered by a three-member board of trustees that is chaired by the Treasurer of the Commonwealth. The Secretary of the Executive Office for Administration and Finance and the Commissioner of MassDEP serve as trustees. The Board of Trustees approves all financial commitments and program decisions during monthly meetings. Meeting agendas, minutes and other board materials can be found on the Trust's website.

The Trust, in collaboration with the Massachusetts Department of Environmental Protection (MassDEP), helps communities build or replace water quality infrastructure that enhances ground and surface water resources, ensures the safety of drinking water, protects public health, and develops resilient communities.

It accomplishes these objectives by providing low-interest loans and grants to cities, towns, and water utilities through the Massachusetts State Revolving Funds (SRFs). The SRF programs are partnerships between the EPA and the Commonwealth of Massachusetts. SRFs function like an environmental infrastructure bank by financing water infrastructure projects in cities and towns across the Commonwealth.

The Trust and MassDEP administer the two SRF programs: the CWSRF established in 1987 under Title VI of the federal Clean Water Act, as amended from time to time, and the DWSRF established in 1996 under the federal Safe Drinking Water Act. The Trust manages the flow of funds to borrowers, while MassDEP evaluates projects, manages project development, and provides project oversight.

The Trust receives funding from the EPA in the form of annual capitalization grants, supplemented state matching funds and the repayment of loans (SRF Program Equity Funds). When loans to borrowers are paid back, the funds are then loaned out again, which is how the SRF programs "revolve". SRF Program Equity Funds are expected to be used for loans or to secure bonds through the Trust's SRF programs in perpetuity.

The Trust initially allocates SRF Program Equity Funds to make loans. The Trust's loan process for each SRF is guided by a list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles the two IUPs annually. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects during an annual solicitation process. MassDEP engineers review detailed project specifications and rank them using an established set of criteria that measures the severity of the problem, the sensitivity of the environmental hazard, the public health risk, and the appropriateness of the proposed solution.

For CWSRF project selection, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. For DWSRF project selection, the program emphasizes compliance with federal and state water requirements to protect the public health while addressing the Commonwealth's drinking water needs. Ultimately, MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

The Trust provides each borrower a subsidized loan pursuant to a financing agreement between the Trust and the borrower. The Trust makes loans with terms up to thirty (30) years, but the loan term is limited by the expected useful life of the project being financed or refinanced. Twenty (20) year loans bear interest at a subsidized rate at or below 2% per annum set by statute and thirty (30) year loans bear a slightly higher interest rate. Borrowers deliver their own general or special obligation bond to the Trust referred to as a "local bond" in order to secure their respective loan repayment obligations.

The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities that are in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF Federal Capitalization Grants as additional subsidy to these communities. The Trust provides this additional subsidization in the form of loan forgiveness and uses additional contract assistance from the Commonwealth to provide subsidy in excess of the amount funded by the DWSRF and CWSRF federal capitalization grants.

Overview of Financial Statements

The financial section of this report consists of the following parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements. Except as otherwise specified, dollar amounts used herein are in thousands.

The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to a special purpose entity engaged solely in business-type activities. Under this method of accounting, an economic resources measurement focus, and an accrual basis of accounting are used. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. This report also includes notes accompanying the financial statements to fully explain the activities reported in them. Effective for the year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

The statements of net position present information on the total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources of the Trust. The difference between the two totals is net position. Over time, increases and decreases in net position may be an indicator of the strength or deterioration of the financial health of the Trust.

The statements of revenues, expenses, and changes in net position report the operating revenues and expenses and the nonoperating revenues and expenses of the Trust for the fiscal year. The difference – increase or decrease in net position – then determines the net change in net position for the fiscal year. This change in net position added to last year's net position will reconcile to the total net position for this fiscal year.

The statements of cash flows report activity of cash and cash equivalents during the fiscal year resulting from operating activities, noncapital financing activities, and investing activities. The net result of these activities is reconciled to the cash and cash equivalent balances reported at the end of the fiscal year. These statements are prepared using the direct method of presentation, which allows the reader to easily discern the amount of cash received from grantors, borrowers, and financial institutions, and how much cash was disbursed to borrowers, vendors, and bondholders.

The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities that are not part of the financial reporting entity. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position. Accordingly, this fiduciary activity is reported on a separate statements of fiduciary net position and statements of changes in fiduciary net position.

Condensed Financial Information and Financial Analysis

Condensed Statement of Net Position
(In thousands)

	June 30			Percentage change	
	2023	**2022***	**2021***	**2023–2022**	**2022–2021**
Cash and cash equivalents	$ 1,315,598	968,958	1,058,177	35.8 %	(8.4)%
Investments	569,363	642,007	635,944	(11.3)	1.0
Project fund deposits	39,006	19,246	81,753	102.7	(76.5)
Grants receivable, EPA	226,165	40,965	40,983	452.1	—
Loans receivable	4,091,754	4,037,854	4,084,090	1.3	(1.1)
Accrued interest receivable	38,593	33,621	35,777	14.8	(6.0)
Other assets	3,028	4,339	1,354	(30.2)	—
Total assets	6,283,507	5,746,990	5,938,078	9.3	(3.2)
Deferred outflows of resources	5,279	14,781	22,038	(64.3)	(32.9)
Total assets and deferred outflows of resources	$ 6,288,786	5,761,771	5,960,116	9.1 %	(3.3)%
Accrued expenses and interest payable	$ 52,543	48,903	47,799	7.4 %	2.3 %
Unearned revenue	81,279	30,552	15,894	166.0	92.2
Loan commitments and project funds payable	35,982	17,475	79,746	105.9	(78.1)
Long-term debt	2,590,126	2,558,550	2,808,909	1.2	(8.9)
Other commitments	28,030	6,303	7,805	344.7	100.0
Total liabilities	2,787,960	2,661,783	2,960,153	4.7	(10.1)
Deferred inflows of resources	254	3,388	1,354	(92.5)	100.0
Total liabilities and deferred inflows of resources	$ 2,788,214	2,665,171	2,961,507	4.6 %	(10.0)%
Net position:					
Restricted	$ 2,779,169	2,503,197	2,277,366	11.0 %	9.9 %
Unrestricted	721,403	593,403	721,243	21.6	(17.7)
Total net position	$ 3,500,572	3,096,600	2,998,609	13.0 %	3.3 %

*As restated - refer to note 2 to the financial statements

The Trust's net position as of June 30, 2023 increased $403,972, or 13%, to $3.5 billion from $3.1 billion as of June 30, 2022. This increase reflects the receipt of the EPA federal grant in the amount of $183,489 and associated state matching funds of $21,327, as well as $201,865 in American Rescue Plan Act (ARPA) funding awarded from the Commonwealth. Offsetting this increase was a net operating loss of $2,709.

The Trust's net position as of June 30, 2022 increased $97,991, or 3.3%, to $3.1 billion from $3.0 billion as of June 30, 2021.This increase reflects the receipt of $79,709 in EPA federal grant funds as well as $15,894 in associated state matching grant funds. Contributing to this increase was a net operating income of $2,388.

Cash and Cash Equivalents

Cash and cash equivalents of $1.3 billion increased $346,640, or 36%, from $969 million as of June 30, 2022. This increase reflects proceeds from the Trust's Series 24 Bonds issued in December 2022 that replenished SRF Program Equity Funds applied to fund the construction phase of water infrastructure projects in the amount of $260,808. Also contributing to the increase was the previously mentioned $201,865 of ARPA funds as well as $46,950 of interest earnings. Offsetting these increases was the application of SRF Program Equity Funds to fund the construction phase of water infrastructure projects during fiscal 2023. For more information on the Trust's cash and cash equivalents refer to note 3 to the financial statements.

The Trust's cash and cash equivalents decreased $89,219 to $968,958 as of June 30, 2022 from $1,058,177 as of June 30, 2021 primarily due to investments of the program equity funds into U.S. Treasuries and Agencies.

Summary of Investments
(In thousands)

	June 30			Percentage change	
	2023	2022	2021	2023-2022	2022-2021
Guaranteed Investment Contracts	$ 196,260	247,223	292,736	(20.6)%	(15.5)%
U.S. Treasuries and Agencies	100,704	114,322	140,994	(11.9)	(18.9)
Total debt service reserve funds	296,964	361,545	433,730	(17.9)	(16.6)
Program equity fund investments	272,399	280,462	202,214	(2.9)	38.7
Total investments	$ 569,363	642,007	635,944	(11.3)	1.0

Investments consist of debt service reserve funds (DSRFs) that were established as security for certain series of bonds issued by the Trust and investments of the SRF Program Equity funds. DSRFs totaled $296,964 and $361,545 as of June 30, 2023 and 2022, respectively. The decrease in DSRFs year over year reflects scheduled maturities that correspond to debt service principal payments. As the Trust makes principal payments on its SRF Bonds, the amount of the DSRFs is reduced proportionally. For more information on the Trust's investments refer to note 5 to the financial statements.

The Trust's investment balance increased slightly to $642,007 as of June 30, 2022 from $635,944 as of June 30, 2021 as scheduled maturities in the DSRFs were offset by increased investments of the program equity funds into U.S. Treasuries and Agencies.

EPA federal grant funds received in fiscal year 2023 include awards received from the Bipartisan Infrastructure Law (BIL), officially the Infrastructure Investment and Jobs Act of 2021, that was a historic investment in American infrastructure by the United States Congress and will have a substantial impact on Massachusetts. BIL created five new SRF specific grants that will be available each year beginning in FFY 2022 until FFY 2026. For more details on both the BIL grant awards received and the ARPA funds received, refer to note 6 to the financial statements.

Summary of Loan Receivable
(In thousands)

	June 30			Percentage change	
	2023	2022	2021	2023-2022	2022-2021
Interim loans	$ 459,018	469,228	189,675	(2.2)	147.4
Loan forgiveness	(172,912)	(84,264)	(65,109)	105.2	29.4
Total net loan forgiveness	286,106	384,964	124,566	(25.7)	209.0
Permanently financed loans	3,805,648	3,652,890	3,959,524	4.2	(7.7)
Total loans receivable	$ 4,091,754	4,037,854	4,084,090	1.3	(1.1)

The loan receivable balance of $4.1 billion is comprised of interim loans and permanently financed loans. The Trust offers interim construction financing to communities at a zero percent interest rate with no fees. Interim loans are temporary loans provided by the Trust to eligible borrowers in accordance with a financing agreement for all or any part of the costs of a project in anticipation of a permanent financed loan. The interim loan receivable balance decreased slightly as the issuance of Series 24 Bonds in December 2022 that permanently financed $379,766 of interim loans was mostly offset by new interim loan disbursements reflecting the strong demand for SRF water infrastructure project financing.

The Trust provides loan forgiveness to assist borrowers in their efforts to comply with water quality standards by making projects even more affordable. The significant increase in loan forgiveness reflects the additional subsidization made possible by the ARPA grant awards received from the Commonwealth.

Permanently financed loans, that is construction loans (interim loans) refinanced to permanent loans in repayment status, totaled $3.8 billion as of June 30, 2023 and reflect $471,156 refinanced loans offset by $318,398 in loan repayments.

The Trust's permanently financed loans balance decreased $306,634 to $3.7 billion as of June 30, 2022 from $4.0 billion as of June 30, 2021. The balance reflects loan repayments from borrowers made during fiscal year 2022. No loans were permanently financed during fiscal year 2022.

Year over year, the Trust's bonds payable increased slightly by $31,576 to $2.6 billion as of June 30, 2023. The balance reflects the issuance of Series 24 Bonds in December 2022 in the par amount of $280,155 which was offset by the net impact of 2022 Refunding Bonds issued to refund outstanding Series 17A bonds along with $219,785 in debt service payments made during fiscal year 2023.

The Trust's bonds payable decreased $250,359 to $2.6 billion as of June 30, 2022 from $2.8 billion as of June 30, 2021. The balance reflects $210,885 in debt service payments made during fiscal year 2022. There was no bond issuance during fiscal year 2022.

The following is a summary of bonds payable as of June 30, 2023, 2022 and 2021 (in thousands). More detailed information can be found in note 8 to the financial statements.

		Summary of Bonds Payable as of June 30,		
		2023	**2022***	**2021***
State Revolving Fund Revenue Bonds:				
Master Trust Agreement	$	1,387,735	1,160,150	1,212,205
Pool Loan Program		260,515	430,430	445,480
Single Obligor Bonds – MWRA		3,535	4,170	4,870
Subtotal revenue bonds		1,651,785	1,594,750	1,662,555
Subordinated Revenue Refunding Bonds:				
Master Trust Agreement		254,575	157,835	183,585
Pool Loan Program		440,820	562,950	680,280
Single Obligor Bonds – MWRA		3,845	3,845	3,845
Subtotal revenue refunding bonds		699,240	724,630	867,710
Total bonds		2,351,025	2,319,380	2,530,265
Add unamortized bond premium		239,101	239,170	278,644
Total bonds payable, net	$	2,590,126	2,558,550	2,808,909

*As restated - refer to note 2 to the financial statements

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' projects under the CWSRF and DWSRF programs. The Trust uses a "leveraged model" to provide funding in excess of the federal and state grants received. SRF Bonds are issued in the capital markets and are secured by loans or reserves funded by SRF Program Equity Funds (pledged assets). The proceeds from the SRF Bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure. The balance of the Trust's pledged assets as of June 30, 2023 is $ 296,964 in reserve funds and $ 715,539 in loans to borrowers. The SRF Bonds are payable from borrower loan repayments, reserve fund earnings and contract assistance payments made by the Commonwealth to the Trust on behalf of the borrowers.

The Trust entered into a Master Trust Agreement (MTA) to replace the older Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. Prior to Series 18, the Trust issued bonds pursuant to the Trust's older Program Resolution and standalone bond resolutions to finance or refinance loans to several borrowers concurrently (Pool Loan Program Bonds) or to finance or refinance loans to a single borrower (Prior Single Obligor Bonds). The Prior Single Obligor Bonds were issued to provide loans to the following three obligors: (1) the Massachusetts Water Resources Authority (MWRA); (2) the South Essex Sewerage District (SESD); and (3) the City of New Bedford. As of June 30, 2023, and 2022, there are no longer Single Obligor Bonds outstanding for SESD or the City of New Bedford. The City of New Bedford, MWRA and SESD are also borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

A summary of the Trust's statements of revenues, expenses, and changes in net position is as follows.

Summary of Changes in Net Position
(In thousands)

	June 30			Percentage change	
	2023	2022*	2021*	2023–2022	2022–2021
Loan servicing fees	$ 5,260	5,473	5,280	(3.9)%	3.7 %
Interest income	140,872	94,784	94,803	48.6	—
Net decrease in the fair value of investments	(10,843)	(25,130)	(7,887)	(56.9)	218.6
Contract assistance	63,383	63,383	63,383	—	—
Total operating revenues	198,672	138,510	155,579	43.4	(11.0)
DEP programmatic support costs	11,888	12,381	9,399	(4.0)	31.7
Loan forgiveness	105,111	32,542	37,353	223.0	(12.9)
General and administrative	3,905	1,876	3,318	108.2	(43.5)
Arbitrage rebate payments	—	886	4,240	(100.0)	(79.1)
Interest expense	80,477	88,437	88,843	(9.0)	(0.5)
Total operating expenses	201,381	136,122	143,153	47.9	(4.9)
Operating (loss) income	(2,709)	2,388	12,426	213.4	80.8
EPA capitalization grants	183,489	79,709	82,501	130.2	(3.4)
State matching grants	223,192	15,894	16,650	1,304.3	(4.5)
Total nonoperating revenues	406,681	95,603	99,151	325.4	(3.6)
Increase in net position	403,972	97,991	111,577	312.3	(12.2)
Net position, beginning of year, as restated	3,096,600	2,998,609	2,887,032	3.3	3.9
Net position, end of year	$ 3,500,572	3,096,600	2,998,609	13.0 %	3.3 %

*As restated - refer to note 2 to the financial statements

Results of Operations

For fiscal year 2023, the Trust recorded an operating loss of ($2,709) as compared to operating income of $2,388 in fiscal year 2022. Excluding the net decrease in the fair value of investments of ($10,843) in fiscal year 2023 and the net decrease in the fair value of investments of ($25,130) for fiscal year 2022, the Trust recorded operating income of $8,134 and $27,518 for fiscal year 2023 and 2022, respectively. This ($19,384) decrease in the Trust's operating income was primarily attributable to a $72,569 increase in loan forgiveness provided to the Trust's borrowers because of the ARPA funds received from the Commonwealth, offset by a $46,088 increase in interest income attributed to the increase in average monthly yield from 0.32% in fiscal year 2022 to 4.00% in fiscal year 2023 on the Trust's cash and cash equivalent investments.

For fiscal year 2022, the Trust recorded an operating income of $2,388 as compared to operating income of $12,426 in fiscal year 2021. Excluding the net decrease in the fair value of investments of ($25,130) in fiscal year 2022 and the net decrease in the fair value of investments of ($7,887) for fiscal year 2021, the Trust recorded operating income of $27,518 and $20,313 for fiscal year 2022 and 2021, respectively. This $7,205 increase in the Trust's operating income was primarily attributable to a $6,382 decrease in scheduled debt service payments made on behalf of borrowers by Commonwealth contract assistance offset by an increase in additional subsidies provided on priority projects and other initiatives year over year.

A summary of the Trust's interest income is as follows:

Summary of Interest Income
(In thousands)

		June 30			Percentage change	
		2023	2022	2021	2023-2022	2022-2021
Cash & cash equivalents interest income	$	46,950	3,426	1,345	1,270.4 %	154.7 %
Investment income		23,291	20,002	21,637	16.4	(7.6)
Loan Interest income		66,699	67,079	67,461	(0.6)	(0.6)
BAB subsidy income		3,932	4,277	4,360	(8.1)	(1.9)
Total interest income	$	140,872	94,784	94,803	48.6 %	(0.0)%

The following table summarizes loan forgiveness disbursed during fiscal year 2023, 2022, and 2021. Refer to note 7 to the financial statements for more information on the Trust's loan forgiveness programs.

Summary of Loan Forgiveness
(In thousands)

	June 30			Percentage change	
	2023	2022	2021	2023-2022	2022-2021
SWIG grants [a]	$ 723	-	954	100%	-100%
AMP grants [b]	1,855	1,180	1,247	57.2	(5.4)
LSL planning grants [c]	251	-	-	100.0	0.0
Affordability subsidies prior to 2021 IUP [a]	14,922	31,362	35,152	(52.4)	(10.8)
ARPA affordability and priorty project subsidies 2021 IUP [a]	87,360	-	-	100.0	0.0
Total loan forgiveness	$ 105,111	32,542	37,353	223.0%	-12.9%

(a) Funded with Commonwealth grant funds including additional contract assistance payments and ARPA funds awarded in FY 2023.
(b) Funded with Trust's program funds.
(c) Funded with BIL Lead Service Line grant funds.

The Trust's operating income is reduced by the inclusion of expenses such as DEP programmatic support costs as well as loan forgiveness funded by the federal grant revenue and Commonwealth grant funds which are classified as nonoperating revenue. The Trust's operating income is positively impacted with the additional contract assistance payments received from the Commonwealth to provide loan forgiveness to borrowers for certain priority projects and or initiatives that are recorded as operating revenue when received; however, the operating expenses are recorded as funds are disbursed which occurs in subsequent fiscal years.

Nonoperating revenues from the EPA federal grants totaled $183,489 for fiscal year 2023, representing the Trust's annual federal SRF base grants plus new federal grants including the BIL grants totaling $86,350 for CWSRF, and $97,139 DWSRF. Refer to note 6 to the financial statements for more information.

Nonoperating revenues from the EPA federal grants totaled $79,709 for fiscal year 2022, representing the Trust's annual federal 2021 base capitalization grants for CWSRF, $53,946, and DWSRF, $25,763. Refer to note 6 to the financial statements for more information.

Fiscal year 2023 nonoperating state revenue includes $201,865 in Commonwealth ARPA revenue replacement awards in addition to nonoperating revenues from state matching grants totaling $21,327, for fiscal year 2023 as compared to $15,894 in fiscal year 2022. Refer to note 6 to the financial statements for more information.

Fiduciary Activity

Effective with the fiscal year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities with which the Trust does not have direct financial involvement with. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position.

Future Economic Factors

In August 2022, the Commonwealth enacted Chapter 140 of the Acts of 2022, *An Act Financing the General Governmental Infrastructure of the Commonwealth* providing for $64 million in state matching funds for the Clean Water and Drinking Water State Revolving Fund programs. The Trust estimates this amount to be sufficient to meet its matching fund requirements through 2027.

In June 2023, the Commonwealth enacted Chapter 2 of the Acts of 2023, *An Act Making Appropriations for the Fiscal Year 2023 to Provide for Supplementing Certain Existing Appropriations for Certain Other Activities and Projects* providing for $104 million in state matching funds for the Clean Water and Drinking Water State Revolving Fund programs included in the federal Infrastructure Investment and Jobs Act (IIJA) of 2021. The Trust estimates this amount to be sufficient to meet its matching fund requirements for all of its currently projected IIJA grant awards.

Requests for Information

This financial report is intended to provide an overview of the financial picture of the Massachusetts Clean Water Trust. Any further questions regarding any of the information contained within this report may be addressed via email to Sue Perez, Executive Director, sperez@tre.state.ma.us or Sally Peacock, Controller, speacock@tre.state.ma.us or mail to Massachusetts Clean Water Trust, 1 Center Plaza, Suite 430, Boston, MA 02108.

MASSACHUSETTS CLEAN WATER TRUST

(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

		2023	2022 Restated
Assets and deferred outflows of resources:			
Current assets:			
Cash and cash equivalents (note 3)	$	1,315,598	968,958
Short-term investments (note 5)		211,334	197,748
Project fund deposits (note 4)		39,006	19,246
Grants receivable - Environmental Protection Agency (note 6)		226,165	40,965
Loans receivable, net (note 7)		599,097	690,204
Accrued interest receivable		38,593	33,621
Total current assets		2,429,793	1,950,742
Noncurrent assets:			
Loans receivable, long-term (note 7)		3,492,657	3,347,650
Long-term investments (note 5)		358,029	444,259
Other assets (note 12)		3,028	4,339
Total noncurrent assets		3,853,714	3,796,248
Total assets		6,283,507	5,746,990
Deferred outflows of resources (note 8)		5,279	14,781
Total assets and deferred outflows of resources		6,288,786	5,761,771
Liabilities and deferred inflows of resources:			
Current liabilities:			
Accrued expenses and interest payable		52,543	48,903
Unearned revenue (note 6)		81,279	30,552
Loan commitments and project funds payable		35,982	17,475
Current portion long-term debt (note 8)		213,705	219,785
Other commitment (note 9)		28,030	6,303
Total current liabilities		411,539	323,018
Noncurrent liabilities:			
Long-term debt, net (note 8)		2,376,421	2,338,765
Total noncurrent liabilities		2,376,421	2,338,765
Total liabilities		2,787,960	2,661,783
Deferred inflows of resources (note 2)		254	3,388
Total liabilities and deferred inflows of resources		2,788,214	2,665,171
Net position:			
Restricted for program purposes (note 10)		2,779,169	2,503,197
Unrestricted (note 10)		721,403	593,403
Commitments (note 11)		—	—
Total net position	$	3,500,572	3,096,600

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022 Restated
Operating revenues:			
Loan servicing fees	$	5,260	5,473
Interest income		140,872	94,784
Net decrease in the fair value of investments		(10,843)	(25,130)
Contract assistance from Commonwealth of Massachusetts		63,383	63,383
Total operating revenues		198,672	138,510
Operating expenses:			
Commonwealth of Massachusetts:			
Department of Environmental Protection – programmatic support costs		11,888	12,381
Loan forgiveness		105,111	32,542
General and administrative		3,905	1,876
Arbitrage rebate payments		-	886
Interest expense		80,477	88,437
Total operating expenses		201,381	136,122
Operating income (loss)		(2,709)	2,388
Nonoperating revenue:			
Grant revenue:			
Environmental Protection Agency capitalization grants (note 6)		183,489	79,709
Commonwealth of Massachusetts grants (note 6)		223,192	15,894
Total nonoperating revenue		406,681	95,603
Increase in net position		403,972	97,991
Net position – beginning of year (as restated - note 2)		3,096,600	2,998,609
Net position – end of year	$	3,500,572	3,096,600

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022 Restated
Cash flows from operating activities:			
Other cash received from borrowers	$	5,260	5,473
Cash paid to vendors		(16,897)	(14,674)
Net cash used in operating activities		(11,637)	(9,201)
Cash flows from noncapital financing activities:			
Bond proceeds received		436,223	-
Bond proceeds used in debt refunding		(148,480)	-
Repayment of bonds		(210,500)	(210,885)
Interest paid		(105,543)	(115,299)
Proceeds from Environmental Protection Agency capitalization grants		60,756	79,727
Proceeds from Commonwealth of Massachusetts grants and awards		211,452	30,552
Proceeds received from Cape Cod and Islands Water Protection Fund (note 3)		37,710	-
Net cash provided by (used in) noncapital financing activities		281,618	(215,905)
Cash flows from investing activities:			
Loans and grants disbursed to recipients		(470,365)	(278,124)
Cash received from borrowers		288,995	283,989
Contract assistance received from the Commonwealth		63,383	63,383
Interest received		130,524	96,299
Purchases of investments		(2,730)	(102,099)
Sales/maturities of investments, net		66,852	72,439
Net cash provided by investing activities		76,659	135,887
Net increase in cash and cash equivalents		346,640	(89,219)
Cash and cash equivalents, beginning of year		968,958	1,058,177
Cash and cash equivalents, end of year	$	1,315,598	968,958
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	$	(2,709)	2,388
Adjustments to reconcile operating income to net cash used in operating activities:			
Reclassification of:			
Interest income		(140,872)	(94,784)
Net decrease in the fair value of investments		10,843	25,130
Contract assistance from Commonwealth of Massachusetts		(63,383)	(63,383)
Interest expense		80,477	88,437
Loan forgiveness		105,111	32,542
Changes in operating assets and liabilities:			
Other assets and liabilities, net		(1,104)	469
Net cash used in operating activities	$	(11,637)	(9,201)

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Fiduciary Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Assets:		
Current assets:		
Cash and cash equivalents	$ 10,822	27,785
Accrued receivables	3,622	2,459
Total assets	14,444	30,244
Net Position		
Net position restricted for other governments	14,444	30,244
Commitments (note 13)	—	—
Total net position	$ 14,444	30,244

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Changes in Fiduciary Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Additions:		
Taxes collected	$ 21,626	20,266
DSRRP loan repayment receipts	920	784
Interest income	1,649	101
Total additions	24,195	21,151
Deductions:		
Payment of subsidy for loan forgiveness	39,013	1,303
Fiduciary reimburseable costs	982	962
Total deductions	39,995	2,265
Increase in fiduciary net position	(15,800)	18,886
Net position – beginning of year	30,244	11,358
Net position – end of year	$ 14,444	30,244

See accompanying notes to financial statements.

(1) General

(a) Organization

The Massachusetts Clean Water Trust (the Trust) is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The Trust was created by Chapter 275 of the Acts of 1989 and is governed by Chapter 29C of the Massachusetts General Laws. Pursuant to an Operating Agreements between the United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (MassDEP), and the Trust, the Trust administers the Commonwealth's Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs.

The Trust is administered by a three-member board of trustees that is chaired by the Treasurer of the Commonwealth. The Secretary of the Executive Office for Administration and Finance and the Commissioner of MassDEP serve as trustees. The Trust's Board of Trustees approves all financial commitments and program decisions during monthly meetings. Meeting agendas, minutes and other board materials can be found on the Trust's website, https://www.mass.gov/orgs/the-massachusetts-clean-water-trust.

(b) Description of Business

The Trust, in collaboration with the Massachusetts Department of Environmental Protection (MassDEP), helps communities build or replace water quality infrastructure that enhances ground and surface water resources, ensures the safety of drinking water, protects public health, and develops resilient communities.

It accomplishes these objectives by providing low-interest loans and grants to cities, towns, and water utilities through the Massachusetts State Revolving Funds (SRFs). The SRF programs are partnerships between the EPA and the Commonwealth of Massachusetts. SRFs function like an environmental infrastructure bank by financing water infrastructure projects in cities and towns across the Commonwealth.

The Trust and MassDEP administer the two SRFs, the CWSRF and the DWSRF. The Trust manages the flow of funds to borrowers while MassDEP manages the development and oversight of projects.

The Trust receives funding from the EPA in the form of annual grants, supplemented by state matching grants and the repayment of loans. When loans to local governments are repaid, the funds are then loaned out again, which is how the funds "revolve".

The Trust uses a "leveraged financing model" which allows the Trust to finance projects more than the funding from the federal and state grants. Bonds are issued in the capital markets and are secured by borrower repayments and reserve funds. The proceeds from the bonds provide capital for new below market rate loans to borrowers for water infrastructure. This model has allowed the Trust to finance approximately $8.6 billion in water infrastructure projects from approximately $3.1 billion in federal grants and state matching funds.

The Trust's loan process for each SRF is guided by an annual list of projects the Trust commits to finance called the Intended Use Plan (IUP). MassDEP compiles the two IUPs annually. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects during an annual solicitation process. MassDEP engineers review detailed project specifications and rank them using an established set of criteria that measures the severity of the problem, the sensitivity of the environmental hazard, the public health risk, and the appropriateness of the proposed solution.

For CWSRF projects, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. DWSRF projects emphasize compliance with federal and state water requirements to protect public health while addressing the Commonwealth's drinking water needs. MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

Total project grant funds received, both federal and state, less the amounts provided as loan forgiveness, are required to remain in the SRF program in perpetuity in support of the state revolving fund per the Clean Water Act and Safe Drinking Water Act. As a result, these funds are classified as restricted on the statements of net position.

(2) Summary of Significant Accounting Policies

The accounting policies of the Trust conform to U.S. generally accepted accounting principles (GAAP) as applicable to government enterprises. The following is a summary of the Trust's significant accounting policies.

(a) Basis of Presentation

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for a special purpose entity engaged solely in business-type activities. The more significant account policies are described below.

Effective with the fiscal year ended June 30, 2021, the Trust implemented GASB Statement No. 84, Fiduciary Activities, which resulted in the reporting of fiduciary fund financial statements within the Trust's financial statements.

(b) Revenue Recognition

Operating revenues, including interest income, are generated through the issuance of loans to local governments within the Commonwealth. Operating expenses include interest expense related to the Trust's outstanding debt as well as programmatic and administrative expenses.

Most of the Trust's loans are subsidized at a 2% rate of interest, as set by statute. However, the Trust has identified priority projects or priority policy goals to award a higher amount of subsidy generally through offering lower interest rates or a 0% interest rate. These initiatives include 0% interim construction financing, 0% nutrient enrichment reduction loans, 0% PFAS remediation loans, and 0.5% interest rate reduction for Housing Choice Communities. The subsidies used for interest rate reduction have been funded by the Commonwealth through annual contract assistance payments. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged.

Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to offer additional subsidies that have been in the form of loan forgiveness or grants. Details of these additional subsidies can be found in note 7. The Trust funds these additional subsidies through additional contract assistance payments from the Commonwealth, federal grants and SRF program equity funds.

Disbursements of funds related to these priority projects and/or initiatives are recorded as operating expenses, specifically loan forgiveness, when disbursed to borrowers.

Total contract assistance payments are subject to annual appropriation from the Commonwealth and are recorded as operating revenues upon receipt of funds from the Commonwealth and totaled $63,383 for each fiscal year 2023 and 2022.

Funding from federal capitalization grants and state matching grants are recorded as nonoperating revenue. Federal capitalization revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements. Revenue recognition associated with these grants is based on the standard principles of eligibility, including timing requirements.

(c) Cash and Cash Equivalents

The Trust's policy is to treat all highly liquid investments with original maturities of three months or less as cash and cash equivalents.

(d) Investments

The Trust's investment guidelines permit investment of funds in obligations of, or guaranteed by, the United States of America or the short-term external investment pool, the Massachusetts Municipal Depository Trust (MMDT), managed by the Commonwealth, as well as in time deposits, Guaranteed Investment Contracts (GICs), repurchase agreements, and other permitted investments such as qualified municipal obligations.

The Trust categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* defines a certain hierarchy of inputs to valuation techniques used to measure fair value. All the Trust's investments in U.S. Treasuries and Agencies are categorized as Level 2.

Inputs within Level 2 of the fair value hierarchy include inputs that are directly observable, these inputs are derived principally from or corroborated by observable market data through correlation or by other means. Investments in debt securities classified as Level 2 of the fair value hierarchy are valued using matrix pricing techniques, in accordance with market quotations or valuation methodologies from reliable financial industry services.

Under existing standards, several types of investments are not required to be reported at fair value. The investment in the MMDT cash portfolio (cash and cash equivalents) is valued at the share value of $1.00 and carried at amortized cost. The short-term bond investment portfolio is carried at fair value. For purposes of risk categorization, MMDT shares are not categorized. The GICs are considered nonparticipating investment contracts and are also excluded from GASB Statement No. 72, *Fair Value Measurement and Application*. These investment values will continue to be measured in accordance with existing accounting standards and are recorded at contract value.

(e) Allowance for Uncollectible Amounts and Loan Forgiveness

The allowance for uncollectible accounts receivable is determined principally on the basis of past collection experience as well as consideration of current economic conditions. Receivables are reported at the gross amount and an allowance for doubtful accounts would be recognized for that portion of receivables that is deemed uncollectible, based upon a review of outstanding receivables, historical collection information, and existing economic conditions and trends. Because of the absence of any delinquent loans, there is no provision for uncollectible amounts.

Loans are reported net of loan forgiveness expected to be provided upon project completion. The amount of loan forgiveness is determined by the Trust's Board of Trustees and is recorded on a first-in, first-out basis as disbursements are processed, up to the total amount of the loan forgiveness awarded to the individual loans. For more information, refer to note 7.

(f) Loan Origination Fees and Costs of Issuance

The Trust may charge loan origination fees from borrowers. If borrowers are charged, payments would be collected at the time of the first debt service payment. This origination fee revenue, if any, is recorded at the time of the bond closing which is when these fees are earned. Costs of issuance related to the bonds are recorded to general and administrative expenses when incurred.

(g) Risk Financing

The Trust is not insured for casualty, theft, tort claims, or other losses. No amounts have been accrued for such losses as they are not considered material. As discussed in note 1, all financial, management, and project oversight activities are provided by employees of the Office of the State Treasurer, MassDEP, and the Executive Office for Administration and Finance. These employees are covered under the Commonwealth's existing employee benefit programs. The cost of these programs is allocated to the Trust through a fringe benefit allocation. Costs in excess of this amount are borne by the Commonwealth. As a result, no liabilities for employee-related activities have been recorded by the Trust.

(h) Bond Premiums

Bond premiums, included in long-term debt, are amortized on the effective interest method, over the life of the associated bond issue. The Trust has restated its July 1, 2021 beginning net position of the business-type activities by $112,753 to reflect the change in the amortization method of bond premiums from the straight-line method to the effective interest method. The change to the effective interest method of amortization also resulted in the restatement of deferred outflows of resources as of June 30, 2022 by a reduction of $11,978; as well as the restatement of long-term debt as of June 30, 2022 by a reduction of $130,498.

The restatements to the change in net position for the year ended June 30, 2022 are as follows:

	July 1, 2021, as Previously Reported	June 30, 2022, as Previously Reported	Restatement Adjustment	June 30, 2022, as Restated
Net Position, July 1, 2021	2,885,856	-	112,753	2,998,609
Interest Expense	-	94,204	(5,767)	88,437
Increase in Net Position	-	92,224	5,767	97,991
Net Position, June 30, 2022	-	2,978,080	118,520	3,096,600

(i) Deferred Inflows and Outflows of Resources

The Trust accounts for certain transactions that result in the consumption or acquisition in one period that are applicable to future periods as deferred outflows and deferred inflows of resources, respectively, to distinguish them from assets and liabilities. At June 30, 2023 and 2022, the Trust reported deferred inflows of resources representing the payment due from JP Morgan, in the amounts of $254 and $3,388, respectively, for the positive valuation of its hedging derivative instruments in the accompanying financial statements. For more information refer to note 12. At June 30, 2023 and 2022, the Trust reported deferred outflows of resources related to the calculated difference between the reacquisition price and the net carrying amount of refunded bonds of $5,279 and $14,781, respectively. For more information refer to note 8.

(j) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Reclassifications

Certain amounts in the statements of net position for the year ended June 30, 2022 have been reclassified to conform with the June 30, 2023 presentation.

(3) Cash and Cash Equivalents

Cash and cash equivalents for the years ended June 30, 2023 and 2022 are as follows.

		2023	2022
Program equity funds	$	900,328	732,184
Other restricted funds		329,661	155,043
State match funds		31,805	32,397
Administrative funds		26,247	29,048
Debt service funds		12,078	8,922
Revenue funds		9,442	6,549
Rebate funds		5,075	4,113
Other cash funds		962	702
Total cash and cash equivalents	$	1,315,598	968,958

SRF Program Equity Funds. The Trust receives funding from the EPA in the form of annual grants, supplemented by state matching funds and the repayment of loans from borrowers (SRF Program Equity Funds). When loans to local governments are paid back, the funds are then loaned out again, which is how the SRF programs “revolve”. Use of these funds are governed by the Clean Water Act and Safe Drinking Water Act and are required to be kept in perpetuity in support of the SRF. These funds are also derived from interest earnings on investments or deposits of amounts held in the program equity accounts; proportional amounts released from the pledged assets available because of loan repayments in accordance with the provisions specified in the applicable bond resolutions; amounts derived from financing activities of the Trust; and other amounts appropriated to the Trust by the Commonwealth for purposes of the SRF programs.

The Trust initially allocates SRF Program Equity Funds to make loans. On December 14, 2022, the Trust issued Series 24A Green Bonds and Series 24B Sustainability Bonds (Series 24 Bonds) in the par amount of $137,095 and $143,060, respectively. Total proceeds of $315,655 from the sale of the Series 24 Bonds replenished SRF Program Equity Funds used to fund the construction phase of financed projects in the amount of $260,808 with the remaining proceeds deposited to project funds for the remaining project costs.

Other Restricted Funds. Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to provide additional subsidy. The Trust provides additional subsidies in the form of loan forgiveness. The balances in these funds reflect the committed and unexpended or unallocated balance as of June 30, 2023 and 2022. These priority projects and initiatives include the following.

Other Restricted Funds
(In thousands)

		June 30	
		FY 2023	FY 2022
ARPA Funds	$	116,631	-
CCIWPF Subsidy Fund		28,030	6,303
Additional Contract Assistance		145,256	109,847
WIFTA Funds		31,110	30,098
AMP Funds		3,846	2,391
SWIG Funds		2,769	3,337
Other Restricted Cash Funds [(a)]		2,019	3,067
Total Restricted Cash Funds	$	329,661	155,043

(a) Funds represent remaining funds committed to 2019 and 2020 IUP projects for loan forgiveness. Funds will be disbursed as project cost reimbursements are requested from the communities.

ARPA Funds. In December 2021, the Trust was awarded $86,865 in American Rescue Plan Act (ARPA) funding from the Massachusetts Legislature through Chapter 102 of the Acts of 2021. In November 2022, the Trust was awarded an additional $115,000 in ARPA funding from the Act Relating to Economic Growth and Relief for the Commonwealth. Actual funds were received by the Trust in fiscal year 2023. For more information refer to note 7.

Cape Cod and Islands Water Protection Subsidy Fund (CCIWPF). The CCIWPF was started by a recommendation from the update to the 208 Plan funded by the Trust and developed by the Cape Cod Commission to address nitrogen flowing into watersheds on Cape Cod. The CCIWPF is a mechanism to raise revenue from tourism on Cape Cod and dedicate the funds to wastewater infrastructure projects financed by the Trust. It was created pursuant to Chapter 337 of the Acts of 2018 “Act Regulating and Insuring Short-Term Rentals”. The legislation added an optional 2.75% local excise tax on traditional lodging and short-term rentals for communities on Cape Cod and Islands. This excise tax is collected by Massachusetts Department of Revenue and may only be collected by communities participating in the CCIWPF and may only be deposited to the fund managed by the CCIWPF Management Board. The Board is comprised of representatives from each Cape Cod community. The Trust acts as custodian for this fund and moves funds at the direction of the Board. The table below depicts the activity in this fund for fiscal years 2023 and 2022. More information regarding the fiduciary activities of this fund can be found in note 13.

CCIWPF Subsidy Fund
(In thousands)

	June 30	
	FY 2023	**FY 2022**
Beginning balance	$ 6,303	7,805
Funds deposited	37,710	-
Funds disbursed	(15,983)	(1,502)
Ending balance	$ 28,030	6,303

Additional Contract Assistance. The Commonwealth and the Trust have entered into a contract pursuant to which the Commonwealth has committed to provide contract assistance payments to the Trust to reduce the borrowers' debt service obligations to the Trust. Additionally, recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to provide borrowers with a higher rate of subsidy with the use of additional contract assistance over and above the contractual amount required for debt service. For more information refer to note 7 for details of additional subsidy initiatives. Annual appropriations are made each year by the Commonwealth to fund the Trust's contract assistance. This amount has been consistently $63,383. The balance is this fund represents amounts intended to be used for future years' priority projects and initiatives that will provide borrowers with additional subsidies that will reduce their overall project costs for water infrastructure projects.

Water Infrastructure Funding Transfer Act (WIFTA) Funds. On October 1, 2020, the Trust made a permanent transfer of funds from the CWSRF program equity fund to the DWSRF program equity fund in the amount of $30,000 pursuant to WIFTA for the remediation of lead service lines. Originally, these funds were required to be committed within three years. In August 2023, EPA granted the Trust an extension of three years to align the use of these funds with the new Bipartisan Infrastructure Law Lead Service Line (LSL) grants. The LSL grants conditions require 49% of the total grant funds to be provided as loan forgiveness to disadvantaged communities. In order to assist all communities in remediating lead service lines, the Trust will utilize these WIFTA funds to provide loan forgiveness to non-disadvantaged communities. For more information refer to notes 6 and 7.

Asset Management Planning (AMP) Grant Funds. The Trust launched its AMP grant program in 2019. Refer to note 7 for more information on this program. The Trust's Board authorizes use of its SRF Program Equity Funds for eligible applicants for this program. Upon authorization, these funds are restricted and disbursed to the eligible applicants pursuant to disbursement requests.

School Water Improvement Grant (SWIG) Program Funds. The Trust launched its SWIG program in 2020. Refer to note 7 for more information on this program. The Trust's received $5,000 from the Commonwealth Legislature pursuant to Chapter 142 of the Acts of 2019.

State Match Funds. The Trust receives state matching funds from the Commonwealth's capital budget. The Trust is required to obtain the matching grant prior to receiving its federal annual grants. The Bipartisan Infrastructure Law (BIL) signed into law on November 15, 2021, provided a significant investment in the water sector. The BIL appropriated $55 billion to EPA to improve drinking water and wastewater infrastructure. Most of the water infrastructure dollars will flow through the DWSRF and CWSRF. The BIL appropriation for federal fiscal years 2022 through 2026 will represent a substantial increase over regular annual appropriations to this program. For more information refer to note 6 for the Trust's EPA grant awards and the respective state match requirements.

The state match fund balance as of June 30, 2023, includes the FFY 2023 required state match for the 2022 base SRF grants totaling $7,214, the FFY 2023 required state match for the 2022 Supplemental BIL grants totaling $11,598, the unspent state match on the 2021 CWSRF base grant of $6,043, the unspent state match on the 2021 DWSRF Supplemental BIL grant of $4,175, the unspent state match on the 2020 DW ESWIG grant of $749, the state cost share on the Sewer Overflow and Stormwater program for federal fiscal years 2020 and 2021 totaling $436, plus $1,590 in accumulated interest earnings.

The state match fund balance as of June 30, 2022, includes the FFY 2022 required state match amounts totaling $21,327, the $749 state match for the 2020 ESWIG grant as well as a $9,225 reserve for FFY 2023 state matching funds and $1,096 in accumulated interest earnings. For more information refer to note 6 for the details by grant.

Administrative Funds. Annual loan servicing fees equal to 0.15% of outstanding loan principal charged pursuant to financing agreements as well as origination fees, if any, and any other amount received by the Trust for such purposes are used to fund the administrative costs of the Trust. The Trust utilized these funds to pay for the costs of issuance associated with its Series 24 and 2022 Refunding bond issuance rather than charging borrowers origination fees.

Revenue Funds. Program revenues including borrower repayments, pledged assets earnings and contract assistance are deposited to this fund and are restricted or committed for specific purposes including the payment of debt service on February 1 or August 1. Borrower repayments are due to the Trust by January 15 and July 15. Contract assistance is typically received by mid-January and mid-July.

Rebate Funds. The Trust sets aside certain amounts of its revenue funds collected to pay arbitrage rebate liabilities to the United States Treasury when due. Arbitrage rebate filings are due on the fifth anniversary of the respective bond issuance dates and every five years thereafter until bonds are matured and/or no longer outstanding.

Debt Service Funds. These funds accumulate the amounts required to pay principal and interest due on debt service payment dates. The balance on June 30, 2023 and June 30, 2022 primarily reflects principal maturities and related accrued interest payments related to U.S. Treasury and Agencies debt service reserve fund investments received prior to the respective August debt service payment dates.

Cash and cash equivalents include investments in MMDT. The Office of the Treasurer and Receiver-General (Treasury) manages MMDT, the Commonwealth's short-term external mixed investment pool. MMDT is comprised of two portfolios, a Cash Portfolio and a Short-term Bond Portfolio. The Cash Portfolio is a money market like investment pool; its investments are carried at amortized cost, which approximates fair value. The investment in MMDT is valued at the share value of $1.00 and carried at amortized cost.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management

Department, at (617) 367-9333 or download the statements from the Cash Management Section of the Office of the State Treasurer's Web site at www.mass.gov/treasury. For purposes of risk categorization, MMDT shares are not categorized.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. The Trust had no significant amount of cash on deposit with banks subject to custodial credit risk on June 30, 2023 and 2022.

MMDT interest is paid monthly. June interest is recorded July 1. On June 30, 2023 and 2022 accrued interest receivable for MMDT cash accounts totaled $5,520, and $1,066, respectively. The Trust recognized $46,950 and $3,426 of interest income from MMDT cash accounts for fiscal year 2023 and 2022, respectively. The increase in interest income reflects the higher average yield on MMDT funds in fiscal 2023 of 4.00% compared to 0.38% in fiscal 2022.

(4) Project Fund Deposits

Project fund deposits were $39,006 and $19,246 as of June 30, 2023 and 2022, respectively. The increase reflects $91,390 of project fund deposits made in conjunction with the Series 24 Bond sale in December 2022 and $1,780 in interest earnings; which were offset by $60,189 project cost disbursements and $13,221 of unexpended project fund deposits reallocated during FY2023. The project fund deposits are held by the Trustee and disbursed in accordance with executed loan agreements. Project fund deposits are invested as part of the MMDT Cash Portfolio. MMDT interest is paid monthly. June interest is recorded July 1. On June 30, 2023 and 2022 accrued interest receivable for project fund deposits totaled $175 thousand, and $22 thousand, respectively. The Trust recognized $1,920 and $87 thousand of interest income from MMDT project fund deposits for fiscal year 2023 and 2022, respectively. The increase in interest income reflects the higher average yield on MMDT funds in fiscal 2023 of 4.00% compared to 0.38% in fiscal 2022.

Project fund deposits are disbursed to borrowers for eligible project costs as needed. These funds are restricted and are to be disbursed solely for the applicable project costs associated with the applicable loan financing agreement. When all project costs have been paid, any amounts remaining unexpended in the project fund deposits will normally be applied to the repayment of the applicable borrower's loan principal amount.

As of June 30, 2023, project fund deposits represented $35,982 in project fund deposits related to executed loan agreements for SRF Bonds and $3,024 of interest earnings for a total balance of $39,006. The Trust recorded an offsetting $35,982 commitment and project fund payable in its statement of net position. As of June 30, 2022, project fund deposits represented $17,475 in project fund deposits related to executed loan agreements for SRF Bonds and $1,771 of interest earnings for a total balance of $19,246. The Trust recorded an offsetting $17,475 commitment and project fund payable in its statement of net position.

(5) Investments

Investments primarily consist of debt service reserve accounts that were established as security for certain series of bonds issued by the Trust. The amounts deposited in each debt service reserve account were determined at the time of the issuance of the bonds and varied from 33% to 50% of the par amount of the bonds issued. In most cases, debt service reserve funds were funded from the SRF Program Equity Funds. Interest earnings on the debt service reserve accounts are used for debt service payments. The Trust's debt service reserve accounts are invested in either GICs or U.S. Treasuries and Agencies.

GICs are recorded at contract value and U.S. Treasuries and Agencies are reported at fair market value. Reductions in GIC balances year over year reflect the scheduled maturities that correspond to debt service principal payments. As the Trust pays principal on its debt, proportional amounts are released from the pledged assets securing the related debt. Since 2012, the Trust has been pledging direct loans as security for its bonds rather than establishing debt service reserve funds. As a result, the debt service reserve fund investment balance continues to decline as scheduled maturities occur.

The Trust invests a portion of its SRF Program Equity funds in accordance with its investment policy.

The table below provides details of the Trust's investments as of June 30, 2023 and 2022.

Total Investments

		2023	2022
Debt Service Reserve Funds			
GICs by Provider:			
Mass Mutual Financial Group	$	118,268	144,812
Natixis Funding Corporation		42,708	58,664
Citigroup Global Markets Inc.		35,284	43,747
Total GIC's [a]		196,260	247,223
U.S. Treasuries and Agencies		100,704	114,322
Total debt service reserve fund investments		296,964	361,545
Program Equity Fund Investments			
MMDT Short-term Bond Portfolio		106,469	104,148
U.S. Treasuries and Agencies		165,358	175,570
Citigroup Global Markets Inc. GIC		572	744
Total program equity fund investments		272,399	280,462
Total Investments	$	569,363	642,007

[a] On 8/11/2023, the Trust redeemed the outstanding par amounts for Series 8, 9 and 11 and terminated the associated debt service reserve fund GIC investments. Series 8 DSRF was terminated with Natixis Funding Corporation for a total amount of $14,826 and Series 9 and Series 11 DSRFs were terminated with Mass Mutual Financial Group for a total amount of $32,777.

U.S. Treasuries and agencies pay interest semi-annually based on the individual securities' maturity dates. Interest on the GIC's is paid semi-annually in January and July. On June 30, 2023 and 2022 accrued interest receivable for investments totaled $5,338, and $6,407, respectively. The Trust recognized $20,078 and $19,686 of interest income from investments for fiscal year 2023 and 2022, respectively.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Trust does not have a concentration of credit risk policy. The following list sets forth the GIC providers with which the Trust's investments exceed 5% of the Trust's total investment balance.

Provider	2023		2022	
Mass Mutual Financial Group	$ 118,268	21 %	$ 144,812	22 %
Natixis Funding Corp.	42,708	8	58,664	9
Citigroup Global Markets Inc.	35,855	6	44,491	7

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Trust will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Trust requires that all investment agreements be collateralized either upon execution of such agreement or upon the happening of certain events, and at all times thereafter, by securities or other obligations issued or guaranteed by the United States, by certain federal agencies or corporations or, in some cases, by corporate or municipal issuers rated "AAA" by S&P Global Ratings and "Aaa" by Moody's, having a market value of not less than 102% of the amount currently on deposit or in accordance with their respective agreement.

Credit Risk – The majority of the Trust's investments are in GICs or in U.S. Treasuries and Agencies. The U.S. Treasuries and Agencies are all backed by the federal government. The GICs either have collateral requirements in place upon execution of the investment agreement, or have triggered collateral requirements under which, upon a rating downgrade below a specified level, the counterparty is typically required to take one of three actions: 1) post collateral to a level sufficient to maintain an AA rating, 2) assign the investment contract to a new counterparty that has at least an AA rating, or 3) provide credit enhancement to maintain a rating on the investment contract of at least AA. The MMDT Short-term Bond Portfolio and the GICs are not rated.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Trust's investments. The Trust limits its exposure to interest rate risk by entering into guaranteed investment contracts and federally guaranteed fixed income securities for all of its long-term investments upon which the Trust relies to meet its obligations. The Trust's U.S. Treasuries and Agencies investment portfolio in the debt service reserve funds was structured in its principal and interest return to support debt service on the related bonds.

For the years ended June 30, 2023 and 2022 the Trust's total investment portfolio matures as follows.

		June 30, 2023			
		GICs	U.S. Treasuries and Agencies	MMDT Short-term Bond Portfolio	Total investments
Less than 1 year	$	68,759	36,106	106,469	211,334
One to five years		92,109	158,752	—	250,861
Six to ten years		33,470	41,867	—	75,337
More than ten years		2,494	29,337	—	31,831
	$	196,832	266,062	106,469	569,363

		June 30, 2022			
		GICs	U.S. Treasuries and Agencies	MMDT Short-term Bond Portfolio	Total investments
Less than 1 year	$	80,750	12,850	104,148	197,748
One to five years		120,919	170,223	—	291,142
Six to ten years		39,499	65,567	—	105,066
More than ten years		6,799	41,252	—	48,051
	$	247,967	289,892	104,148	642,007

(6) Capitalization Grants

The CWSRF and DWSRF programs were established in each state by capitalization grants from the EPA. EPA implemented the SRF programs in a manner that preserves a high degree of flexibility for states in operating their revolving funds in accordance with each state's unique needs and circumstances. These CWSRF and DWSRF base capitalization grants are available to states annually, typically received in August or September before the beginning of each federal fiscal year. To receive these base capitalization grants, states are required to provide state matching funds in an amount equal to 20% of the base capitalization grants.

The CWSRF base grant contains a 4% administrative allowance and beginning in FFY 2022, a 2% small system technical assistance allowance. The DWSRF base grant provides the Trust with set asides to provide a 4% program administration set-aside; a 2% small system technical assistance set-aside; a 10% program management set-aside to fund assistance to Public Water Supplier Support programs, and support for state operator certification program; and a 15% local assistance set-aside for source water protection and capacity development.

On November 15, 2021, President Biden signed the Bipartisan Infrastructure Law (BIL), officially the Infrastructure Investment and Jobs Act of 2021, into law. BIL was a historic investment in American infrastructure by the United States Congress and will have a substantial impact on Massachusetts. BIL created five new SRF specific grants that will be available each year beginning in FFY 2022 until FFY 2026.

BIL created two new CWSRF federal grants:

CWSRF Supplemental Grant. The grant functions like the base CWSRF grant. Receipt of this grant requires 10% state matching funds for FFY 2022 and 2023 and then 20% state matching funds for FFY 2024 through 2026. Although the CWSRF Supplemental grant contains a 4% administrative allowance and 2% small system technical assistance allowance, the Trust did not elect either of these allowances for its FFY 2022 grant. Grant conditions require 49% of the total grant funds to be provided as loan forgiveness to disadvantaged communities.

CWSRF Emerging Contaminants (EC) Grant. These funds must be used for projects that remediate known emerging contaminants under the Clean Water Act. The Trust opted to transfer the full amount of its FFY 2022 grant funds to the DWSRF EC Grant to help meet the increasing demand for these projects on the DWSRF. There is no state match requirement for this grant.

BIL created three new DWSRF federal grants:

DWSRF Supplemental Grant. The grant functions like the base DWSRF grant. Receipt of this grant requires 10% state matching funds for FFY 2022 and 2023 and then 20% state matching funds for FFY 2024 through 2026. The DWSRF Supplemental grant contains the same set-asides as described above for the DWSRF base grant. The Trust elected $5,831 of these set-asides from its FFY 2022 grant. Grant conditions require 49% of the total grant funds to be provided as loan forgiveness to disadvantaged communities.

DWSRF Emerging Contaminants (EC) Grant. These funds must be used for projects that remediate known emerging contaminants under the Safe Drinking Water Act. These funds are specifically utilized for remediation of per- and polyfluoroalkyl substances (PFAS). There is no state match requirement for this grant. The Trust did not elect any set-asides from this grant rather all grant funds will be utilized to fund projects. The DWSRF EC Grant is expected to target PFAS remediation projects and require the full amount of the grant funds to be provided as loan forgiveness and that at least 25% of the grant be directed to disadvantaged communities.

DWSRF Lead Service Line (LSL) Replacement Grant. The grant funds are dedicated for the replacement of lead service lines, and the identification and planning for removal of lead service lines. There is no state match requirement for this grant. Grant conditions require 49% of the total grant funds to be provided as loan forgiveness to disadvantaged communities. The Trust has elected to use the set-asides from this grant to fund LSL planning and inventory projects and to provide technical assistance.

In December 2021, the Trust was awarded $86,865 in American Rescue Plan Act (ARPA) funding from the Massachusetts Legislature through Chapter 102 of the Acts of 2021. In November 2022, the Trust was awarded an additional $115,000 in ARPA funding from the Act Relating to Economic Growth and Relief for the Commonwealth. Actual funds were received by the Trust in fiscal year 2023.

The Commonwealth designated these awards as revenue replacement for investments in water and sewer. As such, there are no subawards or subrecipients under this eligibility category and funds are not subject to program income requirements. Revenue replacement expenditures must be obligated by December 2024 and expended by December 2026. The Trust intends to use these funds to provide loan forgiveness for its 2021 and 2022 IUP projects.

The following table depicts the Trust's EPA grants receivable by program. The Trust receives its state match funds in June prior to the receipt of the federal grants.

EPA Grants Receivable

	CWSRF		DWSRF		
	Base Grant	BIL Grants	Base Grant	BIL Grants	Total Program
Grants receivable - June 30, 2021	$ 27,972	-	$ 13,011	-	40,983
FFY 2021 Base grant [(a)(b)]	53,946	-	25,763	-	79,709
Grant funds drawn SFY 2022	(54,876)	-	(24,851)	-	(79,727)
Grants receivable - June 30, 2022	27,042	-	13,923	-	40,965
FFY 2022 Base grant [(a)]	39,285	-	16,260	-	55,545
FFY 2022 Supplemental grant [(c)]	-	60,428	-	41,750	102,178
FFY 2022 Emerging contaminant grant [(c)(d)]	-	-	-	20,706	20,706
FFY 2022 LSL replacement grant [(e)]	-	-	-	65,783	65,783
FFY 2020 & 2021 OSG grant [(a)]		1,744	-	-	1,744
Total FFY2022 grant awards	39,285	62,172	16,260	128,239	245,956
Grant funds drawn SFY 2023	(42,544)	-	(18,068)	(144)	(60,756)
Grants receivable - June 30, 2023	$ 23,783	62,172	12,115	128,095	226,165

(a) The Trust elects to have all base grant federal funds available for draw in the first quarter of the FFY.

(b) The DWSRF Base Grant includes FFY 2019 supplemental base grant awarded 8/10/2021 in the amount of $237.

(c) The Trust elected to have the grant federal funds available equally over each of the quarters in the FFY.

(d) The CWSRF BIL Emerging contaminant grant in the amount of $3,175 was transferred to the DWSRF Emerging contaminant grant as allowed pursuant to Section 302 of the 1996 Safe Drinking Water Act Amendments to provide states the flexibility to move funds between CWSRF and DWSRF programs to better address specific priorities. The amounts transferred between the SRF programs is limited to 33% of the DWSRF grant.

(e) The Trust originally elected to have the federal grant funds available equally over each of the quarters in the FFY beginning FFY Q1. The Trust amended this grant to delay the remaining funds availability for one year.

These grants require that the Trust enter into binding commitments with local government units within one year of date the federal grant funds were made available to provide assistance in an amount equal to the sum of the federal grant award and state matching funds, if any. As part of its grant applications, the Trust elects to have the federal funds available either all in the first quarter of the FFY or allocated equally over each of the quarters in the FFY. Grant draws may begin in the quarter in which the grant is awarded and end no later than eight quarters after the grant is awarded. The Trust draws on its federal grants based on the amount of incurred costs for certain eligible projects or activities.

Each state may opt to transfer a portion of its CWSRF base capitalization grant, not to exceed 33% of its DWSRF base capitalization grant, to the DWSRF program. The Trust has taken advantage of this option each year beginning with its 2013 clean water capitalization grant to provide additional capacity to its drinking water program. In total, $60,014 has been transferred from CWSRF to DWSRF to date under this option. This option also exists for BIL grants. The Trust expects to transfer 33% of its BIL CWSRF Supplemental grant to the BIL DWSRF Supplemental grant and 33% of its BIL CWSRF EC grant to the BIL DWSRF EC grant.

Federal grant revenue is recognized in accordance with the funding availability schedules contained within the individual grant agreements. Under the state matching grant, typically drawn prior to fiscal year end, revenue is unearned until the Federal grant is awarded, typically in August or September, at which time state matching revenue is recognized in accordance with each corresponding federal grant's funding schedules.

The following table depicts the federal grant revenue and state matching grant revenue recognized in SFY 2023 and 2022 as well as the unearned revenue recorded as of June 30, 2023 and 2022.

	EPA Grants Revenue					
		Federal Grants		State Match		
	Grant Amount	Revenue Recognized	Unearned Revenue	State Match	Revenue Recognized	Unearned Revenue
FFY 2021 Grants [a][b]						
CWSRF Base grant	$ 53,946	53,946	-	10,789	10,789	-
DWSRF Base grant	25,763	25,763	-	5,105	5,105	-
FFY 2022 Grants - State Match [c]						21,327
SFY 2022 EPA Grant Revenue	79,709	79,709	-	15,894	15,894	21,327
FFY 2022 Grants						
CWSRF Base grant [a]	39,285	39,285	-	7,857	7,857	-
CWSRF Supplemental grant [d]	60,428	45,321	15,107	6,043	6,043	-
CWSRF OSG grant [a]	1,744	1,744	-	-	-	-
Total CWSRF	101,457	86,350	15,107	13,900	13,900	-
DWSRF Base grant [b]	16,260	16,260	-	3,252	3,252	-
DWSRF Supplemental grant [d]	41,750	31,313	10,437	4,175	4,175	-
DWSRF EC (PFAS) grant [d][e]	20,706	16,675	4,031	-	-	-
DWSRF LSL replacement grant [f]	65,783	32,891	32,892	-	-	-
Total DWSRF	144,499	97,139	47,360	7,427	7,427	-
ARPA Revenue Replacement Grant	-	-	-	201,865	201,865	-
FFY 2023 Grants [g]						
CWSRF Base grant	25,469	-	-	5,094	-	5,094
CWSRF Supplemental grant	70,769	-	-	7,077	-	7,077
CWSRF EC (PFAS) grant	7,220	-	-	-	-	-
Total CWSRF	96,238	-	-	12,171	-	12,171
DWSRF Base grant	10,602	-	-	2,120	-	2,120
DWSRF Supplemental grant	45,206	-	-	4,521	-	4,521
DWSRF EC (PFAS) grant	16,404	-	-	-	-	-
DWSRF LSL replacement grant	33,700	-	-	-	-	-
Total DWSRF	105,912	-	-	6,641	-	6,641
SFY 2023 EPA Grant Revenue	$ 245,956	183,489	62,467	223,192	223,192	18,812

[a] The Trust elected to have the all base grant federal funds available in the first quarter of the FFY.

[b] The DWSRF Base Grant includes FFY 2019 supplemental base grant awarded 8/10/2021 in the amount of $237.

[c] Unearned revenue reported on the statement of net position as of June 30, 2022 includes a $9,225 reserve for FFY 2023 state matching

[d] The Trust elected to have the grant federal funds available equally over each of the quarters in the FFY.

[e] The CWSRF BIL Emerging contaminant grant in the amount of $3,175 was transferred to the DWSRF Emerging contaminant grant as allowed pursuant to Section 302 of the 1996 Safe Drinking Water Act Amendments to provide states the flexibility to move funds between CWSRF and DWSRF programs to better address specific priorities. The amounts transferred between the SRF programs is limited to 33% of the DWSRF grant.

[f] Trust originally elected to have the federal grant funds available equally over each of the quarters in the FFY beginning FFY Q1. The Trust amended this grant to delay the remaining funds availability for one year. A total of two quarters were made available prior to amendment.

[g] FFY 2023 grants were awarded to the Trust in September 2023 and federal grant funds were made available beginning October 1, 2023. The Trust receives its state matching funds associated with the FFY 2023 federal grants in June 2023, therefore the full amount of the state matching funds received is recorded as unearned revenue as of June 30, 2023.

(7) Loans Receivable and Bonds Purchased

The Trust provides low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. These loans are provided under the Trust's CWSRF, DWSRF, and Community Septic Management Programs.

The Trust's loan process is dictated by the IUPs MassDEP compiles annually, one for each SRF program. Project eligibility is determined by the Clean Water Act and the Safe Drinking Water Act for the CWSRF and DWSRF, respectively. Eligible borrowers are encouraged to apply for financing for eligible projects during an annual solicitation process. MassDEP engineers review detailed project specifications and rank them using an established set of criteria that measures the severity of the problem, the sensitivity of the environmental hazard, the public health risk, and the appropriateness of the proposed solution.

For CWSRF project selection, the program emphasizes watershed management priorities, stormwater management, green infrastructure, and encourages communities to undertake projects with meaningful water quality and public health benefits. For DWSRF project selection, the program emphasizes compliance with federal and state water requirements to protect public health while addressing the Commonwealth's drinking water needs. Ultimately, MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year.

The Trust provides each borrower a subsidized loan pursuant to a financing agreement between the Trust and the borrower. The Trust makes loans with terms up to thirty (30) years, but the loan term is limited by the expected useful life of the project being financed or refinanced. Twenty (20) year loans bear interest at a subsidized rate of 2% per annum set by statute and thirty (30) year loans bear a slightly higher interest rate. Borrowers deliver their own general or special obligation bond to the Trust referred to as a "local bond" in order to secure their respective loan repayment obligations.

A summary of loan receivables as of June 30, 2023 and 2022 is as follows.

		2023	2022
Leveraged loans	$	3,090,109	3,061,058
Direct loans pledged for bond debt service		710,905	586,570
Other direct loans		4,634	5,262
Total permanently financed loans receivable		3,805,648	3,652,890
Interim loans		459,018	469,228
Loan forgiveness [(a)]		(172,912)	(84,264)
Total interim loans net loan forgiveness		286,106	384,964
Total loans receivable		4,091,754	4,037,854
Less current portion loans receivable			
Permanently financed		312,991	305,240
Interim loans		286,106	384,964
Total current portion loans receivable		599,097	690,204
Long-term portion – loans receivable	$	3,492,657	3,347,650

(a) Loan forgiveness is a contra asset account. The loan amounts are legally forgiven as the projects are completed. Upon receipt of the project approval certificate from MassDEP, the interim loan balance and the corresponding loan forgiveness amount (contra asset) would be removed from the respective balances.

The interim loan receivable balances were $459,018 and $469,228 as of June 30, 2023 and 2022, respectively. The slight decrease in interim loans is due to the issuance of Series 24 Bonds in December 2022 which permanently financed $379,766 of interim loans which was mostly offset by new interim loan disbursements reflecting the strong demand for SRF water infrastructure project financing.

The Trust recognizes the need for construction funds to be available to communities throughout the year, not simply at the time of an annual Trust bond issue. This need is addressed by making funds available to eligible projects through the interim loan program. The Trust initially allocates SRF Program Equity Funds to make these interim loans. Interim loans are temporary loans provided by the Trust to eligible borrowers in accordance with a financing agreement for all or any part of the costs of a project in anticipation of a leveraged or direct loan. This interim construction financing is offered to communities at a zero percent interest rate with no fees.

Although the Trust initially allocates its SRF Program Equity Funds to fund communities' projects under the CWSRF and DWSRF programs, the Trust uses a "leveraged model" to provide funding in excess of the federal and state grants received and replenish its SRF Program Equity Funds. SRF Bonds are issued in the capital markets and are secured by loans or reserves funded by SRF Program Equity Funds (pledged assets). The proceeds from the SRF Bonds are used to provide capital for new below market rate loans to borrowers for water infrastructure, replacing the interim or construction loans, and establishing the repayment schedules. These loans funded with bond proceeds are referred to in the table above as leveraged loans. The loans securing the SRF Bonds that are funded with SRF Equity Program Funds are referred in the table above as direct loans pledged for bond debt service.

The June 30, 2023 leveraged loan balance of $3,090,109 reflects the issuance of the Trust's Series 24 Bonds in December 2022 that funded $315,643 in leveraged loans for CWSRF and DWSRF projects. Proceeds from the Series 24 Bonds replenished SRF Program Equity Funds applied to fund the construction phase of financed projects in the amount of $260,808, and an additional $54,835 of bond proceeds were deposited to project funds for the remaining project expenses for these leveraged loans. The leveraged loan balance only increased $29,051 from June 30, 2022 as scheduled loan repayments offset the new Series 24 leveraged loans.

Recent legislative changes have allowed the Trust to identify priority projects and/or initiatives to provide additional subsidy. These priority projects and initiatives include the following.

School Water Improvement Grant (SWIG) Program. On January 8, 2020, the Trust's Board of Trustees approved the pilot round of the School Water Improvement Grant (SWIG) program. The goal of the SWIG program is to reduce lead in school drinking water to the lowest levels possible by incentivizing public and private schools, early education facilities and non-residential daycares to test their drinking water fixtures and remediate any lead exceedances that are detected. It accomplishes this by providing funds to purchase and install point-of-use filtered water bottle filling stations to replace drinking water fixtures that tested above the remediation lead action level of 1 part per billion.

SWIG provides $3 thousand per eligible fixture that tests positive for lead that is eligible to be replaced. The funding covers the purchase of bottle filling stations, installation, and post installation testing of the unit. It allows the organization to use the remaining funds for future operation and maintenance costs. SWIG was launched in concert with MassDEP's expanded version of the Assistance Program for Lead

Testing in School Drinking Water using funds from EPA's Lead Testing in School and Child Care Program Drinking Water Grant.

In fiscal year 2023, the Trust awarded $306 thousand in grants to 44 facilities serving over 17,535 students throughout the Commonwealth. Since inception of the program, the Trust has awarded $1.7 million in grants to 227 facilities serving over 110,203 students throughout the Commonwealth. The Trust has committed $5 million to this program in addition to the 2020 Expanded School Water Improvement Grant (ESWIG) awarded to the Trust in FFY 2021 in the amount of $3 million. The Trust recognizes loan forgiveness expense as funds are disbursed to these organizations. During fiscal year 2023, the Trust disbursed $723 thousand to these organizations.

Asset Management Planning (AMP) Program. Asset management for water, wastewater, and stormwater utilities is a systematic approach to physical infrastructure cataloging, process management and criticality tracking that allows the utility to make informed financial decisions that are most likely to achieve long-term sustainability and deliver consistent cost-efficient service. The Trust launched its AMP grant program in 2019 to assist eligible applicants with completing, updating, or implementing an asset management program for wastewater, drinking water, stormwater utilities or any combination of the three. In fiscal year 2022, the Trust and MassDEP updated the program eligibility to include cybersecurity assessments. This will allow communities to have a professional review of their infrastructure's network security and make recommendations and policy changes.

The Trust provides a maximum grant award of $150 thousand or 60% of the total project cost, whichever is less. The applicant provides the remaining amount with a cash contribution, or a cash contribution along with an in-kind services (IKS) contribution as a local match. The IKS contribution is limited to 50% of the total local match. Small systems may use an IKS contribution of up to 70% of the local match.

AMP grant applications are requested through the annual SRF project solicitation. Grant funds are provided to eligible applicants as reimbursement of expenses incurred. In fiscal year 2023 and 2022, $1,855 and $1,180 of grant funds were disbursed. To date, $8,738 has been committed to this program. The committed but unexpended balance as of June 30, 2023, and 2022 was $3,846 and $2,391, respectively.

Additional Subsidy – Affordability Criteria. The Safe Drinking Water Act and the Clean Water Act require states to develop affordability criteria to identify communities in need of additional subsidization to afford the costs of constructing needed water infrastructure projects. SRFs are required to provide a percentage of the annual DWSRF and CWSRF federal capitalization grants as additional subsidy to these communities.

The Affordability Calculation is based on an adjusted per capita income (APCI) metric. Pursuant to EPA guidance, the criteria must be based upon income, unemployment data, population trends, and other data determined relevant by the state. The Trust calculates APCI for the Commonwealth and its 351 individual municipalities annually in connection with the IUP process. Communities that fall below the Commonwealth's APCI are assigned into three (3) affordability tiers based on a community's APCI as a percentage of the Commonwealth's APCI.

The highest level of subsidy goes to tier 3 communities that are below 60% of the statewide APCI. The second highest level of subsidy goes to tier 2 communities that fall within 60-80% of the statewide APCI. The third highest level of subsidy goes to tier 1 communities that fall between 80-100% of the statewide APCI. The percentage of subsidy provided ranges from 3.3% to 9.9% for tiers 1 to 3 for the CWSRF program and 6.6% to 19.8% for tiers 1 to 3 for the DWSRF program.

The Trust provides this additional subsidization in the form of loan forgiveness. Loan forgiveness can assist borrowers in their efforts to comply with water quality standards by making projects even more affordable. Loans funded by loan forgiveness grants are advanced to local communities on a cost reimbursement basis up to the amount of the awarded loan forgiveness. Loan forgiveness provided for projects prior to the 2021 Intended Use Plan was funded through contract assistance received from the Commonwealth and totaled $14,922 in fiscal year 2023 and $31,362 in fiscal year 2022.

In addition to the loan forgiveness awarded pursuant to the affordability criteria, the Trust, through its ARPA funding, approved additional subsidies for specific priority project types on its 2021 Intended Use Plan in the amount of $117,389. A total of $87,360 of ARPA funds were disbursed to communities for these subsidies in fiscal year 2023.

Lead Service Line (LSL) Planning Program. Increased funding from the BIL expanded the annual SRF funding and programs. Additionally, these new grants have resulted in a tremendous increase in loan forgiveness for projects that are vital to the public health and safety across the Commonwealth. Two newly developed programs provide grant funds or direct technical assistance to communities to create LSL inventories and LSL replacement programs. This program provides grants to communities for LSL identification and removal planning projects to assist public water suppliers (PWSs) to comply with Lead and Copper Rule Revisions (LCRRs). LCRRs require all PWSs to complete a full inventory of service lines connected to its distribution system, regardless of it they are owned or controlled by the PWS by October 16, 2024. Further, the PWSs must also submit a plan to MassDEP by the 2024 deadline detailing how the PWS will prioritize, fund, and fully remove LSLs connected to its distribution system. To help communities meet this deadline, the Trust is utilizing the BIL DWSRF LSL grant to provide grants to communities designated as disadvantaged communities, and the Trust will use the remaining Water Infrastructure Funding Transfer Act (WIFTA) funds to provide grants to non-disadvantaged communities. During fiscal year 2023, the Trust committed to 64 projects providing $14,051 in grants. During fiscal year 2023, the Trust disbursed $145 thousand of the LSL grant and $106 thousand of WIFTA funds to communities.

Loan forgiveness is reported on the Statement of Revenue, Expenses and Changes in Net Position as funds are disbursed. The following table summarizes the types of loan forgiveness disbursed during fiscal year 2023 and 2022.

		Amounts Disbursed *Dollars in thousands*	
		FY 2023	FY 2022
SWIG grants		$ 723	-
AMP grants		1,855	1,180
LSL planning grants		251	-
Affordability subsidy - prior to 2021 IUP	(a)	14,922	31,362
ARPA affordability and priorty project subsidies 2021 IUP		87,360	-
Total loan forgiveness		$ 105,111	32,542

(a) Includes Commonwealth's contract assistance on borrower's debt service principal payments.

Aggregate principal maturities on loans receivable are as follows:

Years ending June 30:	Leveraged loans	Direct loans used for bond debt service	Other direct loans	Total permanently financed loans
2024	$ 276,854	35,508	629	312,991
2025	262,590	36,158	630	299,378
2026	251,954	35,308	630	287,892
2027	230,511	35,955	631	267,097
2028	216,916	36,340	631	253,887
2029–2033	917,398	188,539	1,483	1,107,420
2034–2038	597,649	129,437	—	727,086
2039–2043	276,796	97,043	—	373,839
2044–2048	44,476	76,453	—	120,929
2049–2053	14,965	40,164	—	55,129
	$ 3,090,109	710,905	4,634	3,805,648

Payments on loans are due to the Trust fifteen (15) days in advance of debt service payments on the Trust's bonds: February 1 and August 1. Accordingly, the Trust records in its statements of net position accrued interest receivable equal to 5/6ths of the interest received from borrowers on August 1 at fiscal year-end. On June 30, 2023 and 2022 accrued interest receivable from borrowers totaled $27,559, and $26,126, respectively. The Trust recognized $66,699 and $68,255 of interest income from borrowers for fiscal year 2023 and 2022, respectively.

The Trust's loans to its borrowers are subsidized by interest earnings on its pledged assets which include debt service reserve funds and direct loans. Additionally, contract assistance is provided to the Trust by the Commonwealth on behalf of certain loan financing agreements. Although borrowers are obligated to the Trust to make scheduled payments, these subsidies are expected to be available for the duration of the loan financing agreements as described in note 8. These contract assistance funds are used to make debt service payments on behalf of the Trust's borrowers, both principal and interest. These funds are received by the Trust in advance of debt service payments on the Trust's bonds: February 1 and August 1. These funds are recorded upon receipt of funds from the Commonwealth with no accrued receivable recorded in the statements of net position.

(8) Bonds Payable

The Trust issues special obligation bonds to provide capital for below market rate loans to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. The Trust uses a "leveraged model" to provide funding in excess of the federal and state grants. Bonds are issued in the capital markets and are secured by loans or, with certain bonds, reserves funded by program funds.

The Trust entered into a Master Trust Agreement (MTA) to replace the older Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. The Series 18 Bonds were the initial series of MTA Bonds, and the Trust expects to conduct its SRF programs through the MTA. With the establishment of the MTA in 2015, the Trust amended the Program Resolution to provide that no additional bonds may be issued that are secured by the Program Resolution, other than refunding bonds. All SRF Bonds issued and to be issued under the MTA (MTA Bonds) are secured on a parity basis by the assets pledged under the MTA.

Prior to Series 18, the Trust issued bonds pursuant to the Trust's Program Resolution and standalone bond resolutions to finance or refinance loans to several borrowers concurrently (Pool Loan Program Bonds) or to finance or refinance loans to a single borrower (Prior Single Obligor Bonds). The Prior Single Obligor Bonds were issued to provide loans to the following three obligors: (1) the Massachusetts Water Resources Authority (MWRA); (2) the South Essex Sewerage District (SESD); and (3) the City of New Bedford. There are no longer Single Obligor Bonds outstanding for SESD or the City of New Bedford. The City of New Bedford, MWRA and SESD also are borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

The MTA Bonds are special obligations of the Trust and do not constitute a pledge of its full faith and credit. The MTA Bonds are payable solely from the funds pledged pursuant to the MTA which include repayments on all loans financed through the MTA Program, together with contract assistance payments, and earnings on certain funds held under the MTA. All other series of Trust bonds are payable from amounts pledged pursuant to the individual Water Pollution Abatement and Drinking Water Project Bond Resolutions, which include payments by borrowers of principal and interest on the loans, contract assistance, and earnings on amounts on deposit in the debt service reserve funds or interest received on certain direct loans made by the Trust.

Debt service is paid semi-annually, with principal and interest payments due February 1 and August 1. Coupons on the bonds range from approximately 2.00% to 5.75% and each series is payable semiannually with the latest maturity occurring in FY 2047.

The Commonwealth and the Trust have entered into a contract pursuant to which the Commonwealth has committed to provide contract assistance payments to the Trust to reduce the borrowers' debt service obligations to the Trust in the amount of $174,967 over 30 years. This obligation of the Commonwealth to the Trust is a general obligation of the Commonwealth, for which its full faith and credit are pledged. Annual appropriations are made each year by the Commonwealth to fund the current year's obligation.

The following is a summary of bonds payable as of June 30, 2023 and 2022.

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2022**	Additions	Reductions	Balance June 30, 2023	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/8/2000	8/1/2023	$ 1,725	—	885	840	840
Series 7	Pool Loan	7/26/2001	2/1/2023	390	—	390	—	—
Series 2002A	MWRA	10/31/2002	8/1/2032	4,170	—	635	3,535	565
Series 8[(b)]	Pool Loan	11/26/2002	8/1/2026	3,590	—	310	3,280	815
Series 9[(b)]	Pool Loan	11/6/2003	8/1/2027	5,485	—	685	4,800	440
Series 11[(b)]	Pool Loan	11/16/2005	8/1/2025	16,290	—	15,130	1,160	570
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 15B	Pool Loan	6/8/2010	8/1/2040	249,595	—	21,990	227,605	22,475
Series 17A and 17B [(a)]	Pool Loan	5/22/2013	2/1/2033	130,525	—	130,525	—	—
Series 18	MTA	1/7/2015	2/1/2045	170,795	—	9,315	161,480	9,625
Series 19	MTA	2/11/2016	2/1/2046	156,965	—	9,665	147,300	10,045
Series 2017	MTA	4/13/2017	8/1/2029	70,530	—	10,820	59,710	10,120
Series 20	MTA	4/13/2017	2/1/2047	171,600	—	7,670	163,930	7,950
Series 21	MTA	9/12/2018	8/1/2038	144,415	—	6,785	137,630	6,945
Series 22	MTA	10/24/2019	8/1/2039	177,945	—	6,960	170,985	7,205
Series 2020	MTA	5/21/2020	8/1/2042	87,305	—	—	87,305	—
Series 23	MTA	5/11/2021	2/1/2041	338,430	—	12,175	326,255	12,645
Series 24	MTA	12/14/2022	2/1/2043	—	280,155	—	280,155	9,480
Series 2022	MTA	12/14/2022	2/1/2043	—	107,560	—	107,560	9,000
Subordinated revenue refunding bonds:*								
Series 1999A	MWRA	11/3/1999	8/1/2029	3,845	—	—	3,845	—
Series 2004A	Pool Loan	9/9/2004	8/1/2027	29,425	—	11,415	18,010	9,580
Series 2006	Pool Loan	12/14/2006	8/1/2034	225,735	—	30,650	195,085	46,605
Series 2012A	Pool Loan	6/13/2012	8/1/2032	31,945	—	31,945	—	—
Series 2014	Pool Loan	6/12/2014	8/1/2028	275,845	—	48,120	227,725	48,800
Subtotal				2,319,380	387,715	356,070	2,351,025	213,705
Add unamortized bonds premium				239,170	48,508	48,577	239,101	—
Total bonds payable				$ 2,558,550	436,223	404,647	2,590,126	213,705

* Subject to the prior pledge of revenues to the refunded bonds.

**As restated - refer to note 2 to the financial statements.

[(a)] On December 14, 2022, Series 17A and 17B bonds were refunded with the Series 2022 Refunding Bonds

[(b)] On August 11, 2023, the Trust redeemed the outstanding par amounts for Series 8, 9 and 11 and terminated the associated debt service reserve fund GIC investments.

Total bonds payable increased $31,576 during fiscal year 2023 due to the issuance of the Series 24 Bonds in the amount of $280,155 offset by $274,122 of scheduled debt service payments, amortization of bonds premiums, and the refunding of Series 17A & B bonds.

On December 14, 2022, the Trust issued State Revolving Fund Bonds Series 24A and 24B (Green Bonds and Sustainability Bonds) in the par amount of $280,155 with a premium of $35,500. The $137,095 Series 24A Bonds were designated by the Trust as “Green Bonds” based on the intended use of the bond proceeds for the financing of projects that adhere to the federal Clean Water Act and Safe Drinking Water Act, as determined by the EPA, and represented the Trust’s sixth Green Bond issuance. The $143,060 Series 24B were designated by the Trust as “Sustainability Bonds” based on the intended use same as the Green Bonds and the designation of the Series 24B borrowers as Tier 3 disadvantaged communities. For more information refer to note 3.

In addition, the Trust issued Series 2022 SRF Refunding Bonds in the par amount of $107,560 with a premium of $13,008. Bond proceeds together with other funds of the Trust were used to refund $130,525 of outstanding Series 17A and 17B Pool Loan Program Bonds. The Trust has decreased its aggregate debt service payments by $25.1M for the 2022 Refunding Bonds over the twenty years ending June 2043. The economic gain (the present value of the debt service savings) for the Trust through this transaction is $16.7M using a discount rate of 3.0263510%.

Series 24 Bond proceeds funded $315,643 in loans for CWSRF and DWSRF projects. The Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 24 Bonds, the Trust pledged $155,514 of its loans to borrowers funded with SRF Program Equity Funds. The interest collected on these loans will be applied to pay a portion of the debt service on the MTA Bonds, thereby supplementing the loan repayment obligations of the local borrowers while the principal payments collected on the direct loans are pledged as further security for the Trust’s bonds.

The Trust issued its Series 15B Bonds in the form of “Build America Bonds” (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Trust is entitled to receive cash subsidy payments from the federal government equal to 35% of the interest payable on the BABs provided that the Trust makes certain required filings in accordance with applicable federal rules. Receipt of these subsidy payments has been and will be adversely affected by implementation of certain provisions of federal law. In federal fiscal year 2016, such payments were subject to a sequestration reduction of 6.8%, with the Bipartisan Budget Act of 2015, approved by the President on November 2, 2015, extending the sequestration provisions through federal fiscal year 2025. For federal fiscal years 2021 through 2030, the sequestration reduction rate has been set at 5.7%, unless a law is enacted that modifies or amends the rate, at which time the sequestration reduction may be subject to change. Such interest subsidy payments could become subject to a much larger sequestration reduction, and potentially eliminated altogether, under the Statutory Pay-As-You-Go (PAYGO) Act of 2010, which is designed to limit the federal deficit spending. Since the enactment of the PAYGO Act, the U.S. Congress has consistently acted to prevent its implementation, but there can be no assurance that it will continue to do so. The Trust received $3,932 and $4,277 in BABs subsidies for fiscal year 2023 and 2022, respectively.

The following is a summary of bonds payable as of June 30, 2022 and 2021.

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2021**	Additions	Reductions	Balance June 30, 2022**	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/8/2000	8/1/2023	$ 2,650	—	925	1,725	885
Series 7	Pool Loan	7/26/2001	2/1/2023	790	—	400	390	390
Series 2002A	MWRA	10/31/2002	8/1/2032	4,870	—	700	4,170	635
Series 8	Pool Loan	11/26/2002	8/1/2026	4,165	—	575	3,590	310
Series 9	Pool Loan	11/6/2003	8/1/2027	6,390	—	905	5,485	685
Series 11	Pool Loan	11/16/2005	8/1/2025	16,600	—	310	16,290	15,130
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 15B	Pool Loan	6/8/2010	8/1/2040	252,595	—	3,000	249,595	21,990
Series 17A and B	Pool Loan	5/22/2013	2/1/2033	139,460	—	8,935	130,525	9,285
Series 18	MTA	1/7/2015	2/1/2045	179,790	—	8,995	170,795	9,315
Series 19	MTA	2/11/2016	2/1/2046	166,265	—	9,300	156,965	9,665
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	25,750	70,530	10,820
Series 20	MTA	4/13/2017	2/1/2047	179,060	—	7,460	171,600	7,670
Series 21	MTA	9/12/2018	8/1/2038	150,985	—	6,570	144,415	6,785
Series 22	MTA	10/24/2019	8/1/2039	184,665	—	6,720	177,945	6,960
Series 2020	MTA	5/21/2020	8/1/2042	87,305	—	—	87,305	—
Series 23	MTA	5/11/2021	2/1/2041	351,440	—	13,010	338,430	12,175
Subordinated revenue refunding bonds*:								
Series 1999A	MWRA	11/3/1999	8/1/2029	3,845	—	—	3,845	—
Series 2004A	Pool Loan	9/9/2004	8/1/2027	42,400	—	12,975	29,425	11,415
Series 2006	Pool Loan	12/14/2006	8/1/2034	271,300	—	45,565	225,735	30,650
Series 2012A	Pool Loan	6/13/2012	8/1/2032	43,855	—	11,910	31,945	16,900
Series 2014	Pool Loan	6/12/2014	8/1/2028	322,725	—	46,880	275,845	48,120
Subtotal				2,530,265	—	210,885	2,319,380	219,785
Add unamortized bonds premium				278,644	—	39,474	239,170	—
Total bonds payable				$ 2,808,909	—	250,359	2,558,550	219,785

*Subject to the prior pledge of revenues to the refunded bonds.
**As restated - refer to note 2 to the financial statements

Total bonds payable decreased $250,359 during fiscal year 2022 due to scheduled debt service payments and premium amortization.

Debt service payments on the Trust's bonds are due semi-annually on February 1 and August 1. Accordingly, the Trust records in its statements of net position an accrued interest payable equal to 5/6ths of the interest paid on August 1 at fiscal year-end. On June 30, 2023 and 2022 accrued expenses and interest payable totaled $52,543 and $48,903, respectively.

As of June 30, 2023, debt service requirements to maturity for principal and interest are as follows.

		Total debt service	Principal	Interest
Year ending June 30:				
2024	$	328,368	213,705	114,663
2025		308,935	206,810	102,125
2026		287,436	195,355	92,081
2027		269,578	186,900	82,678
2028		244,396	170,405	73,991
2029–2033		926,519	663,340	263,179
2034–2038		567,066	442,935	124,131
2039–2043		284,442	250,800	33,642
2044–2047		22,876	20,775	2,101
Total debt service requirements	$	3,239,616	2,351,025	888,591

The Trust defeased certain bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus program funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The irrevocable trust's assets and the liabilities for the defeased bonds are not included in the Trust's financial statements. As of June 30, 2023, no such irrevocable defeasance trusts existed. The outstanding balance of bonds defeased in irrevocable trusts outstanding at June 30, 2022, was $29,660 related to the Series 2012A Refunding Bonds that were redeemed on April 13, 2017 with a final escrow payment date of August 1, 2022.

When the Trust refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the bonds being refunded. The resulting accounting gain or loss is recorded as deferred outflow of resources on the statements of net position and is amortized generally over the life of the refunding bonds. The amortization is recorded as a component of interest expense on the statements of revenues, expenses, and changes in net position. The net accounting loss on debt refunding as of June 30, 2023 and 2022 is as follows.

Deferred Outflow of Resources

		2023	2022*
Beginning net accounting loss*	$	14,781	22,038
Amortization		(2,283)	(7,257)
Series 17 Defeasance		(7,219)	—
Ending net accounting loss	$	5,279	14,781

*As restated - refer to note 2 to the financial statements

(9) Other Commitments

The Trust acts as custodian for the Cape Cod and Islands Water Protection Fund (CCIWPF) that was created pursuant to Chapter 337 of the Acts of 2018 "Act Regulating and Insuring Short-Term Rentals." The legislation added a 2.75% local option excise tax on traditional lodging and short-term rentals for communities on Cape Cod and Islands. This 2.75% excise tax can only be collected by communities participating in the fund and may only be deposited to the fund. The fund is owned and managed by the CCIWPF Management Board which is comprised of representatives from each Cape Cod and Islands community.

Monies from the fund may be used to provide loan forgiveness to eligible CWSRF projects financed by the Trust or to pay for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. To date, the CCIWPF Management Board approved commitment amounts for $205,417 of eligible project costs and $52,105 for debt service for pre-existing debt incurred outside the Trust for certain Cape Cod and Islands communities. These commitment amounts for the pre-existing debt will be provided over a period of ten years while the other committed amounts will be paid over four years. In fiscal year 2023 and 2022, the Trust received instructions from the CCIWPF Management Board to transfer $37,710 and $1,303, respectively, from the fiduciary account to a designated account at the Trust. These funds will be disbursed to the respective projects as reimbursement requests are received; or used to reimburse the Trust for disbursements already made; or remain in the account until project disbursement requests are received. As of June 30, 2023, and 2022 the balance of committed but unexpended funds in this account was $28,030 and $6,303, respectively. For more information refer to note 3 for details of other restricted funds.

(10) Net Position

As of June 30, 2023 and 2022, the Trust has a restricted net position in the amount of $2.78 billion and $2.50 billion, respectively, and an unrestricted net position in the amount of $721 and $593 respectively. Restricted net position represents capitalization grants received cumulative to date from the EPA and corresponding matching amounts received from the Commonwealth, required to revolve back to the program totaling $2.48 billion and $2.35 billion, respectively. The capitalization grants are restricted to provide financial assistance to local communities and interstate agencies for the construction of wastewater treatment works, drinking water infrastructure improvements, and other related projects as described in note 1. Restricted net position also includes other restricted funds including additional contract assistance provided by the Commonwealth to the Trust to provide a higher rate of subsidy on certain priority projects and/or initiatives approved by the Board of Trustees, and the Commonwealth ARPA funds awarded to the Trust in fiscal year 2023. When both restricted and unrestricted resources are available for use, it is the Trust's policy to use restricted resources first, then unrestricted resources as they are needed. For more information refer to note 3 for details of other restricted funds.

(11) Commitment

As of June 30, 2023 and 2022, the Trust has agreed to provide interim financing loans to eligible borrowers amounting to approximately $532,342 and $490,282, respectively, excluding loan amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

(12) Derivative Instrument Transactions

Objective of the Interest Rate Swap – As a means to lower its borrowings costs, when compared with fixed-rate bonds at the time of their issuance in November 2006, the Trust entered into an interest rate swap agreement in connection with its Pool Program Refunding Bonds, Series 2006 Bonds. The intention of the swap agreement was to hedge the Trust's exposure to interest rate risk by effectively changing the Trust's variable rate bonds maturing in 2023 and 2022 to a synthetic fixed rate of 3.90%. The variable rate bonds are indexed to the Municipal Consumer Price Index (Muni-CPI).

Terms – Under the terms of the swap agreement, the Trust agrees to receive a variable rate, based on the Muni-CPI, equal to the amounts due on variable rate bonds issued by the Trust concurrently with the execution of the swap agreement. The Trust agrees to pay a fixed rate to the counterparty. Payments are made semiannually, due August 1 and February 1 of each year, on the same schedule as the variable rate bonds. The counterparty is JPMorgan Chase & Co. The terms of the swap agreement are summarized below:

		2023 Termination	2022 Termination
Trade date		November 21, 2006	November 21, 2006
Effective date		December 14, 2006	December 14, 2006
Termination date		August 1, 2023	August 1, 2022
Notional amount	$	46,605	30,650
Fair value at June 30, 2023		254	--
Fair value at June 30, 2022		2,529	859
Variable rate bond coupon payments		Muni-CPI* rate +0.99%	Muni-CPI* rate +0.99%
Variable rate payment from counterparty		Muni-CPI* rate +0.99%	Muni-CPI* rate +0.99%
Fixed-rate payment to counterparty		3.90%	3.90%
Synthetic fixed rate on bonds		3.90%	3.90%

*Muni-CPI rate is equal to the quotient of (1) the Reference CPI-U for the current debt service payment date minus the prior Reference CPI-U divided by (2) the prior Reference CPI-U. Reference refers to 3 months preceding the debt service payment date. Reference period refers to 15 months preceding the debt service payment date.

Fair Value – Because the Muni-CPI rate increased in excess of the synthetic fixed rate, the swaps had positive fair values as of June 30, 2023 and 2022. This means that on the next debt service payment dates of August 1, 2022 and August 1, 2023 the Trust receives a payment from its swap counterparty. At June 30, 2023 and 2022, the fair value of these swaps is reflected as an asset from derivative instruments, in the amounts of $254 and $3,388, respectively, and is recorded as a component of other assets, and deferred inflow from derivative instruments in the accompanying financial statements.

The fair value (Level 2) of the derivative instrument was estimated using the zero-coupon method. This method calculates the future net settlement payments/receipts required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because the coupons on the Trust's variable rate bonds adjust to the changing Muni-CPI rates, the bonds do not have corresponding fair value increase or decrease.

Credit Risk – As of June 30, 2023 and 2022, the Trust is exposed to credit risk equal to the amount of the derivative instrument's fair value. The swap counterparty is JPMorgan Chase & Co. and is rated AA-/Aa1/AA- by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. To mitigate credit risk, the Trust has the right to terminate the swap upon a ratings downgrade by the counterparty's credit support provider below BBB-/Baa3 by S&P Global Ratings and Moody's Investors Service, respectively.

Termination Risk – The swap contract uses the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Trust may terminate upon a ratings downgrade by the counterparty, as described above. The Trust and the counterparty may terminate if either party fails to perform under the terms of the swap contract. If at the time of termination, the swap has a negative fair value, the Trust would be liable to the counterparty for a payment equal to the swap's fair value. Based on the terms and provisions of the swap agreement, an involuntary termination of the swaps due to an event of the Trust is remote.

Swap Payments and Hedged Debt – In accordance with the swap agreement, the variable rate is calculated using the preceding 3 months' Muni-CPI rate with settlement payments made on the debt service payment dates of February 1 and August 1. As of June 30, 2023, the variable rate was calculated using the May 31, 2023, Muni-CPI rate. As the Muni-CPI rate varies, the variable rate payment on the bond and the variable rate receipt from the swap are equal, and the net debt service will remain fixed. Assuming this rate remains the same, the debt service requirement of the variable rate debt and the net swap payment are presented in the table below.

	Variable rate bonds[1]		Net swap	Total
	Principal	**Interest**	**payments[2]**	**debt service**
Years ending June 30:				
2024	46,605	1,164	(254)	47,515

[1] Calculated rate uses May 31, 2023 Muni-CPI rate to reflect debt service payment for August 1, 2023.

[2] A negative net swap payment requires a payment from the counterparty to the Trust.

The derivative instrument is not exposed to basis risk.

(13) Fiduciary Activities

The Trust's fiduciary activities are the collection or receipt, and the subsequent accounting, investment, and disposition by the Trust of cash in which other entities have an ownership and controlling interest. Fiduciary assets are for the benefit of organizations or other government entities that are not part of the financial reporting entity. Furthermore, the assets are not derived from the Trust's own source revenues nor are they assets of the Trust and are therefore not recognized on the Trust's statements of net position.

The Trust acts as custodian for a separate fund established with expanded room occupancy excise tax on short-term rentals collected and held on behalf of the CCIWPF Management Board. The CCIWPF was established pursuant to Chapter 337 of the Acts of 2018 "An Act Regulating and Insuring Short-Term Rentals". The act expanded the application of the room occupancy excise tax in M.G.L. C. 64G to operators of short-term rentals as of July 1, 2019. The act also allowed for additional local option 2.75% excise tax for those cities and towns that are members of the CCIWPF. Revenues received from the 2.75% excise tax imposed will be credited to the CCIWPF, as well as any investment income earned on the fund's assets. Amounts credited to the fund shall be expended or applied only with the approval of the CCIWPF Management Board established under the act and in a manner determined by the CCIWPF Management Board. Any amounts remaining in the fund at the end of a fiscal year shall be carried forward into the following fiscal year and shall remain available for application and disbursement without further appropriation.

The Trust acts as servicer to the Executive Office of Energy and Environmental Affairs ("EOEEA") to provide loan servicing administration with respect to the Dam and Seawall Repair or Removal Program ("DSRRP"). The EOEEA administers and provides loans to qualified cities, towns, and municipalities under the DSRRP for projects that enhance, preserve, and protect the natural resources and the scenic, historic, and aesthetic qualities of the Commonwealth. Pursuant to M.G.L. C 40.4D the Trust performs routine duties in accordance with the loan servicing standards; invoicing borrowers for amounts due on the DSRRP loans, monitoring collection and receipt from the DSRRP borrowers, keeping proper books and records with respect to any DSRRP debt service payments, and providing EOEEA with summary reports. The Trust maintains a separate fund on behalf of EOEEA for receipts of DSRRP borrower loan repayments which are subsequently transferred to EOEEA's DSRRP fund. In consideration of the Trust's services, any investment earnings from amounts on deposit in this separate fund are transferred to the Trust on each debt service cycle.