

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

Financial Statements and
Required Supplementary Information

For the Years Ended June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

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

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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, 2024 and 2023, 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, 2024 and 2023, 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.

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.

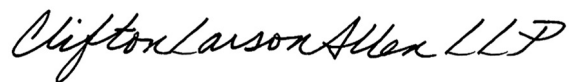
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 17, 2024 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

Boston, Massachusetts
October 17, 2024

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2024 and 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 State Revolving Fund (SRF) programs, the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF).

The Trust is administered by a three-member board of trustees that is chaired by the Treasurer and Receiver General of the Commonwealth. The Secretary of the Executive Office for Administration and Finance and the Commissioner of the Massachusetts Department of Environmental Protection (MassDEP) serve as trustees. The Board of Trustees approves all financial commitments and program decisions during monthly meetings. All board of trustees' materials can be found on the Trust's website along with all pertinent information for borrowers, investors and residents of Massachusetts.

The Trust, in collaboration with 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 or no-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. 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 and the DWSRF established in 1996 under the federal Safe Drinking Water Act, as amended from time to time. The Trust manages the flow of funds to borrowers, while MassDEP manages the development and oversight of projects.

The Trust receives funding in the form of annual capitalization grants from the EPA, state matching funds from the Commonwealth and the repayment of loans. When loans to borrowers are repaid, the funds are then loaned out again, which is how the SRF programs "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, reserve funds and contract assistance payments from the Commonwealth. The proceeds from the bonds provide capital for new below market rate loans to borrowers for water infrastructure projects. This model has allowed the Trust to finance approximately \$9.1 billion in projects from approximately \$3.3 billion in federal grants and state matching funds.

The Trust's loan process for each SRF program 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 apply for financing for eligible projects during an annual solicitation process. MassDEP engineers review detailed project specifications and rank the projects using an established set of criteria that measures the severity of the

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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 and the projects to be funded through the Trust.

The Trust provides each borrower with 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 a general or special obligation bond to the Trust referred to as a "local bond" to secure their respective loan repayment obligations.

The CWSRF and DWSRF programs provide additional subsidies through loan forgiveness to designated Disadvantaged Communities, which are communities that may otherwise not be able to afford to finance a project without additional subsidization. The Trust utilizes its annual disadvantage community calculation to provide loan forgiveness to reduce the financial impact of these critical infrastructure projects. The Trust funds these subsidies through its federal grants and other funds from the Commonwealth including contract assistance as well as American Rescue Plan Act (ARPA) funds.

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.

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.

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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 statements of fiduciary net position and statements of changes in fiduciary net position present information on accounts held by the Trust on behalf of other organizations or governmental entities. These funds include a custodial fund established with expanded room occupancy excise tax on short-term rentals collected and held on behalf of the Cape Cod and Islands Water Protection Fund (CCIWPF) Management Board and a fund held on behalf of the Commonwealth's Executive Office of Energy and Environmental Affairs (EOEEA) to provide loan servicing administration with respect to the Dam and Seawall Repair or Removal Program. These 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.

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Condensed Financial Information and Financial Analysis

Condensed Statement of Net Position
(In thousands)

	June 30			Percentage change	
	2024	2023	2022*	2024–2023	2023–2022
Cash and cash equivalents	\$ 1,274,014	1,315,598	968,958	(3.2)%	35.8 %
Investments	368,392	569,363	642,007	(35.3)	(11.3)
Project fund deposits	124,590	39,006	19,246	219.4	102.7
Grants receivable, EPA	300,340	226,165	40,965	32.8	452.1
Loans receivable	4,284,502	4,091,754	4,037,854	4.7	1.3
Accrued interest receivable	37,578	38,593	33,621	(2.6)	14.8
Other assets	2,614	3,028	4,339	(13.7)	(30.2)
Total assets	6,392,030	6,283,507	5,746,990	1.7	9.3
Deferred outflows of resources	3,412	10,672	14,937	(68.0)	(28.6)
Total assets and deferred outflows of resources	\$ 6,395,442	6,294,179	5,761,927	1.6 %	9.2 %
Accrued expenses and interest payable	\$ 49,300	52,543	48,903	(6.2)%	7.4 %
Unearned revenue	132,543	81,279	30,552	63.1	166.0
Loan commitments and project funds payable	121,660	35,982	17,475	238.1	105.9
Long-term debt	2,384,125	2,590,126	2,558,550	(8.0)	1.2
Other commitments	4,425	28,030	6,303	(84.2)	344.7
Total liabilities	2,692,053	2,787,960	2,661,783	(3.4)	4.7
Deferred inflows of resources	10,928	5,647	3,544	93.5	59.3
Total liabilities and deferred inflows of resources	\$ 2,702,981	2,793,607	2,665,327	(3.2)%	4.8 %
Net position:					
Restricted	\$ 2,770,282	2,693,711	2,417,739	2.8 %	11.4 %
Unrestricted	922,179	806,861	678,861	14.3	18.9
Total net position	\$ 3,692,461	3,500,572	3,096,600	5.5 %	13.0 %

*As restated

The Trust's net position as of June 30, 2024 increased \$191,889, or 6%, to \$3.7 billion from \$3.5 billion as of June 30, 2023. This increase reflects the receipt of the federal fiscal year (FFY) 2023 EPA federal grants in the amount of \$169,985 and associated state matching funds of \$18,812. Adding to this increase was net operating income of \$3,092.

The Infrastructure Investment and Jobs Act (IIJA) of 2021 was signed into law in November 2021. This law, also referred to herein as the Bipartisan Infrastructure Law (BIL), was a historic investment in American infrastructure by the United States Congress. BIL created five new SRF specific grants, two for the CWSRF program and three for the DWSRF program that are available each year beginning FFY 2022 until FFY 2026.

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

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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.

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2024, decreased \$41,584 or 3% from June 30, 2023. This decrease reflects \$84,068 of ARPA subsidy funds disbursed offset by an increase in additional reserves for future project subsidies as well as an increase in state match funds due to the increased requirement under the BIL grants for a 20% state match compared to a 10% match in the previous year. For more information on the Trust's cash and cash equivalents refer to note 3 to the financial statements.

Cash and cash equivalents as of June 30, 2023, 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 previously used 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 year 2023.

Investments

Summary of Investments
(In thousands)

	June 30			Percentage change	
	2024	2023	2022	2024-2023	2023-2022
Guaranteed Investment Contracts	\$ 32,945	196,260	247,223	(83.2) %	(20.6) %
U.S. Treasuries and Agencies	66,967	100,704	114,322	(33.5)	(11.9)
Total debt service reserve funds	99,912	296,964	361,545	(66.4)	(17.9)
Program equity fund investments ^(a)	268,480	272,399	280,462	(1.4)	(2.9)
Total investments	\$ 368,392	569,363	642,007	(35.3) %	(11.3) %

(a) Program equity fund investments as of June 30, 2023 and 2022 include a GIC investment in the amount of \$572 thousand and \$744 thousand, respectively.

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 \$99,912 and \$296,964 as of June 30, 2024 and 2023, respectively. The 66% decrease in DSRFs year over year reflects scheduled maturities of \$55,249, GIC terminations of \$114,038 and transfer of \$36,122 of laddered U.S. Treasury and Agency securities from DSRFs to program equity fund investments. For more information on the Trust's investments refer to note 5 to the financial statements.

Program equity fund investments remained relatively stable at \$268,480 as the transfer mentioned above was offset by scheduled maturities within the laddered U.S. Treasury and Agency securities.

The Trust's investment balance decreased slightly to \$569,363 as of June 30, 2023 from \$642,007 as of June 30, 2022 as scheduled maturities in the DSRFs were offset by increased investments of the program equity funds into U.S. Treasuries and Agencies.

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Grants Receivable

Summary of Grants Receivable

(In thousands)

	June 30			Percentage change	
	2024	2023	2022	2024-2023	2023-2022
CWSRF Base grant	\$ 1,220	23,783	27,042	(94.9) %	(12.1) %
DWSRF Base grant	10,626	9,163	10,926	16.0	(16.1)
Total Base grants	11,846	32,946	37,968	(64.0)	(13.2)
CWSRF BIL grants	101,721	60,428	-	68.3	100.0
DWSRF BIL grants	181,069	128,094	-	41.4	100.0
Total BIL grants	282,790	188,522	-	50.0	100.0
Other grants	5,704	4,697	2,997	21.4	56.7
Total Grants Receivable	\$ 300,340	226,165	40,965	32.8 %	452.1 %

EPA federal grant funds received in fiscal years 2024 and 2023 include significant awards received from BIL including five new SRF specific grants. For more details on the BIL grant awards received, refer to note 6 to the financial statements.

Loans Receivable

Summary of Loans Receivable

(In thousands)

	June 30			Percentage change	
	2024	2023	2022	2024-2023	2023-2022
Interim loans	\$ 614,528	\$ 459,019	\$ 469,228	33.9 %	(2.2) %
Loan forgiveness	(285,696)	(172,912)	(84,264)	65.2	105.2
Total net of loan forgiveness	328,832	286,107	384,964	14.9	(25.7)
Permanently financed loans	3,955,670	3,805,647	3,652,890	3.9	4.2
Total loans receivable	\$ 4,284,502	\$ 4,091,754	4,037,854	4.7 %	1.3 %

The loan receivable balance of \$4.3 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 permanently financed loan. The net interim loan balance has increased \$42,725 in fiscal year 2024, reflecting \$333,748 of project disbursements offset by \$291,023 of loans permanently financed as part of the issuance of Series 25 Bonds in November 2023.

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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 federal BIL grant awards and the ARPA grant awards received from the Commonwealth.

Permanently financed loans, that is construction loans (interim loans) refinanced to permanent loans in repayment status, increased \$150,023 as of June 30, 2024, reflecting \$462,881 of refinanced loans offset by \$312,858 in loan repayments. For more information on the Trust's loans refer to note 7 to the financial statements.

The Trust's net interim loan balance decreased \$98,857 to \$286,107 at June 30, 2023, reflecting the issuance of the Series 24 Bonds in December 2022 that permanently financed \$379,766 of interim loans offset by new loan disbursements. The Trust's permanently financed loan balance increased slightly to \$3.8 billion as of June 30, 2023, from \$3.7 billion as of June 30, 2022. The balance reflects \$471,156 permanently financed loans offset by \$318,399 of loan repayments from borrowers made during fiscal year 2023.

Bonds Payable

Year over year, the Trust's bonds payable decreased \$206,001 to \$2.4 billion as of June 30, 2024. The balance reflects the issuance of Series 25 Bonds in November 2023 in the par amount of \$256,860 which was offset by the net impact of 2023 Refunding Bonds issued to refund outstanding Series 18 Bonds along with \$204,080 in debt service payments made during fiscal year 2024.

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 2023 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 following is a summary of bonds payable as of June 30, 2024, 2023 and 2022. More detailed information can be found in note 8 to the financial statements.

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Summary of Bonds Payable
(In thousands)

	June 30		
	2024	2023	2022*
State Revolving Fund Revenue Bonds:			
Master Trust Agreement	\$ 1,428,845	1,387,735	1,160,150
Pool Loan Program	205,130	260,515	430,430
Single Obligor Bonds – MWRA	—	3,535	4,170
Subtotal revenue bonds	<u>1,633,975</u>	<u>1,651,785</u>	<u>1,594,750</u>
Revenue Refunding Bonds:			
Master Trust Agreement ^(a)	372,715	254,575	157,835
Pool Loan Program ^(b)	156,910	440,820	562,950
Single Obligor Bonds – MWRA ^(b)	—	3,845	3,845
Subtotal revenue refunding bonds	<u>529,625</u>	<u>699,240</u>	<u>724,630</u>
Total bonds	<u>2,163,600</u>	<u>2,351,025</u>	<u>2,319,380</u>
Add unamortized bond premium	<u>220,525</u>	<u>239,101</u>	<u>239,170</u>
Total bonds payable, net	<u>\$ 2,384,125</u>	<u>2,590,126</u>	<u>2,558,550</u>

*As restated

^(a) Bonds issued on parity with all Master Trust Agreement Revenue Bonds.

^(b) Pool Loan Program Refunding Bonds and Single Obligor Refunding Bonds were issued subordinate to the Senior Revenue Bonds.

The Trust issues revenue bonds (SRF Bonds) 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, 2024 is \$99,912 in reserve funds and \$1,300,705 in loans to borrowers. The SRF Bonds are payable from borrower loan repayments consisting of principal and interest payments on the Trust's leveraged loans and interest only on the Trust's pledged direct loans, reserve fund earnings, and contract assistance payments made by the Commonwealth to the Trust on behalf of the borrowers. Principal payments on the Trust's pledged direct loans and the principal in the debt service reserve fund revolve back to the Trust's program equity funds.

In 2014, the Trust entered into a new bond indenture, the Master Trust Agreement (MTA) to replace the older indenture, the 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, 2024, there are no longer any Single Obligor Bonds outstanding. The City of New Bedford, MWRA and SESD are also borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

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June 30, 2024 and 2023

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	
	2024	2023	2022*	2024–2023	2023–2022
Loan servicing fees	\$ 5,576	5,260	5,473	6.0 %	(3.9)%
Interest income	171,461	139,583	95,731	22.8	45.8
Net decrease in the fair value of investments	(3,424)	(10,843)	(25,130)	(68.4)	(56.9)
Contract assistance	63,383	63,383	63,383	—	—
Total operating revenues	<u>236,996</u>	<u>197,383</u>	<u>139,457</u>	<u>20.1</u>	<u>41.5</u>
DEP programmatic support costs	13,189	11,888	12,381	10.9	(4.0)
Loan forgiveness	132,444	105,111	32,542	26.0	223.0
General and administrative	4,249	3,905	1,876	8.8	108.2
Arbitrage rebate payments	2,718	—	886	—	(100.0)
Interest expense	81,304	79,188	89,384	2.7	(11.4)
Total operating expenses	<u>233,904</u>	<u>200,092</u>	<u>137,069</u>	<u>16.9</u>	<u>46.0</u>
Operating (loss) income	<u>3,092</u>	<u>(2,709)</u>	<u>2,388</u>	<u>214.1</u>	<u>213.4</u>
EPA capitalization grants	169,985	183,489	79,709	(7.4)	130.2
State matching grants	18,812	223,192	15,894	(91.6)	1,304.3
Total nonoperating revenues	<u>188,797</u>	<u>406,681</u>	<u>95,603</u>	<u>(53.6)</u>	<u>325.4</u>
Increase in net position	<u>191,889</u>	<u>403,972</u>	<u>97,991</u>	<u>(52.5)</u>	<u>312.3</u>
Net position, beginning of year	<u>3,500,572</u>	<u>3,096,600</u>	<u>2,998,609</u>	<u>13.0</u>	<u>3.3</u>
Net position, end of year	<u>\$ 3,692,461</u>	<u>3,500,572</u>	<u>3,096,600</u>	<u>5.5 %</u>	<u>13.0 %</u>

*As restated

Results of Operations

For fiscal year 2024, the Trust recorded an operating income of \$3,092 as compared to an operating loss of (\$2,709) in fiscal year 2023. Excluding the net decrease in the fair value of investments of (\$3,424) in fiscal year 2024 and the net decrease in the fair value of investments of (\$10,843) for fiscal year 2023, the Trust recorded operating income of \$6,516 and \$8,134 for fiscal year 2024 and 2023, respectively. This (\$1,618) decrease in the Trust's operating income was primarily attributable to a \$27,333 increase in loan forgiveness provided to the Trust's borrowers because of the federal BIL funds as well as ARPA funds received from the Commonwealth, along with slight increases in arbitrage rebate payments, DEP programmatic support costs and general and administrative expenses, offset by a \$31,878 increase in interest income attributed to the increase in average monthly yield from 4.00% in fiscal year 2023 to 5.55% in fiscal year 2024 on the higher monthly average Trust's cash balances.

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

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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 balances.

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

Summary of Interest Income					
(In thousands)					
	June 30			Percentage change	
	2024	2023	2022	2024-2023	2023-2022
Cash & cash equivalents interest income	\$ 80,819	46,950	3,426	72.1 %	1,270.4 %
Investment income	18,035	21,998	20,949	(18.0)	5.0
Loan interest income	69,049	66,703	67,079	3.5	(0.6)
BAB subsidy income	3,558	3,932	4,277	(9.5)	(8.1)
Total interest income	\$ 171,461	\$ 139,583	\$ 95,731	22.8 %	45.8 %

The following table summarizes loan forgiveness disbursed during fiscal years 2024, 2023, and 2022. 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	
	2024	2023	2022	2024-2023	2023-2022
ARPA - CWSRF and DWSRF projects	\$ 84,068	87,360	-	(3.8) %	100.0 %
BIL - CWSRF and DWSRF projects	19,723	-	-	100.0	-
BIL - EC (PFAS) projects	5,964	-	-	100.0	-
BIL - LSL Replacement projects	5,217	-	-	100.0	-
Prior to 2021 IUP projects ^(a)	4,513	14,922	31,362	(69.8)	(52.4)
Total affordability and priority project subsidies	119,485	102,282	31,362	16.8	226.1
LSL planning and inventory grants ^(b)	10,512	251	-	4,088.0	100.0
AMP grants ^(c)	2,303	1,855	1,180	24.2	57.2
SWIG grants ^(d)	144	723	-	(80.1)	100.0
Total loan forgiveness	\$ 132,444	105,111	32,542	26.0 %	223.0 %

(a) Funded with Commonwealth grant funds including additional contract assistance payments.

(b) Funded with BIL LSL grant set-aside funds and WIFTA funds.

(c) Funded with Trust's program funds

(d) Funded with Commonwealth 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 that are 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.

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Nonoperating revenues from the EPA federal grants totaled \$169,985 for fiscal year 2024, representing the Trust's annual federal SRF base grants plus new federal grants including the BIL grants totaling \$71,904 for CWSRF, and \$60,676 DWSRF. Refer to note 6 to the financial statements for more information.

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. 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. 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 include two accounts held by the Trust on behalf of other organizations or governmental entities. These funds include a custodial fund established with expanded room occupancy excise tax on short-term rentals collected and held on behalf of the CCIWPF Management Board and a custodial fund held on behalf of the EOEEA to provide loan servicing administration with respect to the Dam and Seawall Repair or Removal Program. The Trust distributes these funds at the direction of these entities. Refer to note 12 to the financial statements for more information.

Future Economic Factors

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. Additionally, 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 CWSRF and DWSRF programs included in the federal Infrastructure Investment and Jobs Act (IIJA) of 2021. The Trust estimates these amounts to be sufficient to meet its matching fund requirements through 2027.

In 2021, United States Congress re-introduced congressionally directed spending (CDS), which are funds allocated to specific projects in the annual appropriations bills. In the past, when Congress was providing earmarks, these local investments had been a separate appropriation from the SRF appropriation. However, this is no longer the case, and the CDS funds are being deducted from the annual SRF appropriation. The table below demonstrates the impact on the annual appropriation for state SRF funding. The impact is especially detrimental for the DWSRF because the grants are lesser dollar amounts and approximately 30% is used as set-asides for administering the state's drinking water programs.

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Annual Appropriation for State SRF Funding

Clean Water SRF (in millions)				Drinking Water SRF (in millions)			
FFY	Total Appropriation	CDS	Available for SRFs	FFY	Total Appropriation	CDS	Available for SRFs
2022	\$1,638.8	\$444.6	\$1,194.2	2022	\$1,126.1	\$397.8	\$728.3
2023	1,638.9	863.1	775.8	2023	1,126.1	609.3	516.8
2024	1,638.9	794.8	844.1	2024	1,126.1	637.8	488.3

The impact has been minimized by the additional BIL funding, but if this trend continues, the traditional SRF capitalization grants will be diminished. This will result in less funding available for loans and will reduce the capacity of the state drinking water program to aid public water suppliers to continue to meet the public health requirements in the Commonwealth.

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 mail to Massachusetts Clean Water Trust, 1 Center Plaza, Suite 430, Boston, MA 02108.

MASSACHUSETTS CLEAN WATER TRUST
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Statements of Net Position

June 30, 2024 and 2023

(In thousands)

	2024	2023
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 1,274,014	1,315,598
Short-term investments (note 5)	156,760	211,334
Project fund deposits (note 4)	124,590	39,006
Grants receivable - Environmental Protection Agency (note 6)	300,340	226,165
Loans receivable, net (note 7)	645,159	599,097
Accrued interest receivable	37,578	38,593
Total current assets	2,538,441	2,429,793
Noncurrent assets:		
Loans receivable, long-term (note 7)	3,639,343	3,492,657
Long-term investments (note 5)	211,632	358,029
Other assets (note 11)	2,614	3,028
Total noncurrent assets	3,853,589	3,853,714
Total assets	6,392,030	6,283,507
Deferred outflows of resources (note 8)	3,412	10,672
Total assets and deferred outflows of resources	6,395,442	6,294,179
Liabilities and deferred inflows of resources:		
Current liabilities:		
Accrued expenses and interest payable	49,300	52,543
Unearned revenue (note 6)	132,543	81,279
Loan commitments and project funds payable	121,660	35,982
Current portion long-term debt (note 8)	160,685	213,705
Other commitments (note 9)	4,425	28,030
Total current liabilities	468,613	411,539
Noncurrent liabilities:		
Long-term debt, net (note 8)	2,223,440	2,376,421
Total noncurrent liabilities	2,223,440	2,376,421
Total liabilities	2,692,053	2,787,960
Deferred inflows of resources (note 8)	10,928	5,647
Total liabilities and deferred inflows of resources	2,702,981	2,793,607
Net position:		
Restricted for program purposes (note 9)	2,770,282	2,693,711
Unrestricted (note 9)	922,179	806,861
Commitments (note 10)	—	—
Total net position	\$ 3,692,461	3,500,572

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Operating revenues:		
Loan servicing fees	\$ 5,576	5,260
Interest income	171,461	139,583
Net decrease in the fair value of investments	(3,424)	(10,843)
Contract assistance from Commonwealth of Massachusetts	63,383	63,383
Total operating revenues	236,996	197,383
Operating expenses:		
Commonwealth of Massachusetts:		
Department of Environmental Protection – programmatic support costs	13,189	11,888
Loan forgiveness	132,444	105,111
General and administrative	4,249	3,905
Arbitrage rebate payments	2,718	-
Interest expense	81,304	79,188
Total operating expenses	233,904	200,092
Operating income (loss)	3,092	(2,709)
Nonoperating revenue:		
Grant revenue:		
Environmental Protection Agency capitalization grants (note 6)	169,985	183,489
Commonwealth of Massachusetts grants (note 6)	18,812	223,192
Total nonoperating revenue	188,797	406,681
Increase in net position	191,889	403,972
Net position – beginning of year	3,500,572	3,096,600
Net position – end of year	\$ 3,692,461	3,500,572

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, 2024 and 2023

(In thousands)

	2024	2023
Cash flows from operating activities:		
Other cash received from borrowers	\$ 5,576	5,260
Cash paid to vendors	<u>(20,977)</u>	<u>(16,897)</u>
Net cash used in operating activities	<u>(15,401)</u>	<u>(11,637)</u>
Cash flows from noncapital financing activities:		
Bond proceeds received	429,272	436,223
Bond proceeds used in debt refunding	(163,677)	(148,480)
Cash used in debt redemptions	(219,151)	-
Repayment of bonds	(204,080)	(210,500)
Interest paid	(110,464)	(105,543)
Proceeds from Environmental Protection Agency capitalization grants	133,029	60,756
Proceeds from Commonwealth of Massachusetts grants and awards	32,857	211,452
Proceeds received from Cape Cod and Islands Water Protection Fund (note 12)	8,949	37,710
Funds returned to Cape Cod and Islands Water Protection Fund (note 12)	<u>(16,632)</u>	<u>-</u>
Net cash (used in) provided by noncapital financing activities	<u>(109,897)</u>	<u>281,618</u>
Cash flows from investing activities:		
Loans and grants disbursed to recipients	(649,459)	(470,365)
Cash received from borrowers	299,673	288,995
Contract assistance received from the Commonwealth	63,383	63,383
Interest received	168,654	130,524
Purchases of investments	-	(2,730)
Cash received from termination of guaranteed investment contracts	115,386	-
Sales/maturities of investments, net	<u>86,077</u>	<u>66,852</u>
Net cash provided by investing activities	<u>83,714</u>	<u>76,659</u>
Net (decrease) increase in cash and cash equivalents	(41,584)	346,640
Cash and cash equivalents, beginning of year	<u>1,315,598</u>	<u>968,958</u>
Cash and cash equivalents, end of year	\$ <u>1,274,014</u>	<u>1,315,598</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 3,092	(2,709)
Adjustments to reconcile operating income to net cash used in operating activities:		
Reclassification of:		
Interest income	(171,461)	(140,872)
Net decrease in the fair value of investments	3,424	10,843
Contract assistance from Commonwealth of Massachusetts	(63,383)	(63,383)
Interest expense	81,304	80,477
Loan forgiveness	132,444	105,111
Changes in operating assets and liabilities:		
Other assets and liabilities, net	<u>(821)</u>	<u>(1,104)</u>
Net cash used in operating activities	\$ <u><u>(15,401)</u></u>	<u><u>(11,637)</u></u>

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

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Assets:		
Current assets:		
Cash and cash equivalents	\$ 42,855	10,822
Accrued receivables	2,969	3,622
Total assets	45,824	14,444
Net Position		
Net position restricted for other governments	45,824	14,444
Commitments (note 12)	—	—
Total net position	\$ 45,824	14,444

See accompanying notes to financial statements.

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

Years ended June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Additions:		
Taxes collected	\$ 21,559	21,626
DSRRP loan repayment receipts	920	920
Return of funds to CCIWPF	16,632	-
Interest income	<u>2,533</u>	<u>1,649</u>
Total additions	<u>41,644</u>	<u>24,195</u>
Deductions:		
Payment of subsidy for loan forgiveness	8,949	39,013
Fiduciary reimburseable costs	<u>1,315</u>	<u>982</u>
Total deductions	<u>10,264</u>	<u>39,995</u>
Increase in fiduciary net position	31,380	(15,800)
Net position – beginning of year	<u>14,444</u>	<u>30,244</u>
Net position – end of year	<u>\$ 45,824</u>	<u>14,444</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(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 State Revolving Funds (SRFs), the 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 and Receiver General 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. All board of trustees' materials can be found on the Trust's website along with all pertinent information for borrowers, investors and residents of Massachusetts <https://www.mass.gov/orgs/the-massachusetts-clean-water-trust>.

(b) Description of Business

The Trust, in collaboration with the 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 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 in the form of annual capitalization grants from the EPA, state matching grants from the Commonwealth, 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, reserve funds and contract assistance payments from the Commonwealth. The proceeds from the bonds provide capital for new below market rate loans to borrowers for water infrastructure projects. This model has allowed the Trust to finance approximately \$9.1 billion in projects from approximately \$3.3 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 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.

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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. MassDEP selects the highest priority projects and compiles the annual IUPs which establish the Commonwealth's priorities for the upcoming year and the projects to be funded through the Trust.

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. The Trust's fiduciary activities include two accounts held by the Trust on behalf of other organizations or governmental entities. Refer to note 12 to the financial statements for more information.

(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.

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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 2024 and 2023.

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

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Years ended June 30, 2024 and 2023

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 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 and Receiver General, 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.

(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. 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, 2023 have been reclassified to conform with the June 30, 2024 presentation.

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Notes to Financial Statements
Years ended June 30, 2024 and 2023

(3) Cash and Cash Equivalents

Cash and cash equivalents for the years ended June 30, 2024 and 2023 are as follows.

	June 30 2024	June 30 2023
Program equity funds	\$ 906,556	900,328
Other restricted funds	276,020	329,661
State match funds	48,766	31,805
Administrative funds	25,684	26,247
Debt service funds	6,018	12,078
Revenue funds	6,122	9,442
Rebate funds	4,546	5,075
Other cash funds	302	962
Total cash and cash equivalents	\$ 1,274,014	1,315,598

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 a portion of such funds 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 November 21, 2023, the Trust issued Series 25A Green Bonds and Series 25B Sustainability Bonds (Series 25 Bonds) in the par amount of \$144,990 and \$111,870, respectively. Total proceeds of \$279,117 from the sale of the Series 25 Bonds replenished SRF Program Equity Funds used to fund the construction phase of financed projects in the amount of \$208,043 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, 2024 and 2023. These priority projects and initiatives include the following.

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Other Restricted Funds		
<i>(In thousands)</i>		
	June 30 2024	June 30 2023
Reserve for future project subsidies	\$ 196,195	147,275
ARPA funds	30,437	116,631
WIFTA funds	28,612	31,110
AMP funds	13,479	3,846
CCWPF subsidy funds	4,425	28,030
SWIG funds	2,872	2,769
Total Other Restricted Funds	\$ 276,020	329,661

Reserve for Future Project Subsidies. Under state and federal law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Most of the Trust's loans are subsidized to a 2% interest rate set by statute. Other loans made by the Trust may bear interest at lower rates, including, but not below, a zero rate of interest. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. 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. The annual appropriation was \$63,383 for the years ended June 30, 2024 and 2023. The balance 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.

ARPA Funds. 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 and 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 Trust is providing these funds as loan forgiveness to communities which will provide a substantive amount of cost savings for critical water infrastructure. In fiscal year 2024, the Trust disbursed \$84,068 million in ARPA funds, bringing the total cumulative amount of ARPA funds disbursed to \$171,428 million. For more information refer to note 7.

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 (LSL). 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 LSL grants. To assist all communities in remediating lead service lines, the Trust will utilize these WIFTA funds to provide loan forgiveness and grants. 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

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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.

Cape Cod and Islands Water Protection Subsidy Fund. The Cape Cod and Islands Water Protection Fund (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. This fund was created to help communities on Cape Cod utilize the tourist economy to raise revenues to pay for a portion of their wastewater loans from the Trust. It provides additional loan forgiveness for qualifying projects as approved by the CCIWPF Management Board. The Trust acts as custodian to the CCIWPF, refer to note 12 regarding the fiduciary activities of this funds. The CCIWPF Management Board directs the Trust to transfer funds from the CCIWPF to the Trust's CCIWPF Subsidy Fund in order to disburse the subsidy funds to the respective approved projects. The balance in the Trust's CCIWPF Subsidy fund as of June 30, 2024 and 2023, represents the remainder of the funds transferred from the CCIWPF still to be disbursed as project subsidies for commitments made by the CCIWPF Management Board.

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 Infrastructure Investment and Jobs Act (IIJA) of 2021 was signed into law in November 2021. This law, also referred to herein as the Bipartisan Infrastructure Law (BIL), was a historic investment in American infrastructure by the United States Congress. 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 (FFY) 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.

	State Match Funds	
	<i>(In thousands)</i>	
	June 30 2024	June 30 2023
2024 Base Grant State Match	\$ 7,544	-
2023 Base Grant State Match	10	7,214
2021 Base Grant State Match ^(a)	14	-
2024 BIL Supplemental Grant State Match	25,313	-
2023 BIL Supplemental Grant State Match	11,598	11,598
2022 BIL Supplemental Grant State Match	-	10,218
OSG State Match	710	436
ESWIG State Match	749	749
Interest Earnings	2,828	1,590
Total State Match Funds	\$ 48,766	31,805

^(a) The Trust received a \$237 reallocation of funds for the 2021 DWSRF Base 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 also utilizes these

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funds to pay for the costs of issuance associated with its bond issuances 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 receive the amounts required to pay principal and interest due on debt service payment dates from the revenue funds. The balance on June 30, 2024 and June 30, 2023 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 are invested 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.

MMDT interest is paid monthly. June interest is paid July 1. On June 30, 2024 and 2023 accrued interest receivable for MMDT cash accounts totaled \$5,914, and \$5,520, respectively. The Trust recognized \$80,819 and \$46,950 of interest income from MMDT cash accounts for fiscal year 2024 and 2023, respectively. The increase in interest income reflects the higher average yield on MMDT funds in fiscal year 2024 of 5.55% compared to 4.00% in fiscal year 2023.

Interest Rate Risk – MMDT. Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. The MMDT Cash Portfolio minimizes the risk of the fair value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The MMDT Cash Portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

Credit Risk – MMDT. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth's investment policy that governs the MMDT Cash Portfolio prohibits investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. However, there are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements. The MMDT Cash

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Portfolio is invested only in First Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the Investment Company Act of 1940.

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, 2024 and 2023.

(4) Project Fund Deposits

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, 2024 and 2023 accrued interest receivable for project fund deposits totaled \$248, and \$175, respectively. The Trust recognized \$2,623 and \$1,920 of interest income from MMDT project fund deposits for fiscal year 2024 and 2023, respectively.

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.

	Project Funds			
	<i>(In Thousands)</i>			
	<u>Series 24 Project Funds</u>	<u>Series 25 Project Funds</u>	<u>Interest Earnings</u>	<u>Total Project Funds</u>
Balance June 30, 2023	\$ 35,982	—	3,024	39,006
Series 25A & B bond funded	—	71,064	—	71,064
SRF Program Equity funded	—	100,795	—	100,795
Project disbursements	(21,723)	(64,458)	—	(86,181)
Interest earned	—	—	2,550	2,550
Transfer to SRF Program Equity ^(a)	—	—	(2,644)	(2,644)
Balance June 30, 2024	<u>\$ 14,259</u>	<u>107,401</u>	<u>2,930</u>	<u>124,590</u>

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(5) Investments

Investments consist of debt service reserve funds (DSRFs) and SRF Program Equity Funds. DSRFs were established as security for certain series of bonds issued by the Trust. The amounts deposited in each DSRF 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, DSRFs were funded from the SRF Program Equity Funds. Interest earnings on the DSRFs are used for debt service payments. The Trust's DSRFs 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 well as termination of GIC agreements as certain series of bonds are redeemed. 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 DSRFs. As a result, the DSRF investment balance continues to decline as scheduled maturities occur and older series of bonds are redeemed, and the principal balances are returned to the SRF Program Equity Funds.

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, 2024 and 2023.

	Investments		
	DSRFs	Program Equity Funds	Total Investments
Beginning balance June 30, 2023	\$ 296,964	272,399	569,363
Schedule maturities	(55,249)	(30,828)	(86,077)
GIC Terminations	(114,039)	(508)	(114,547)
Transfer UST portfolio	(36,122)	36,122	—
Dividends reinvested	—	3,077	3,077
Change in fair market value	8,358	(11,782)	(3,424)
Ending balance June 30, 2024	<u>\$ 99,912</u>	<u>268,480</u>	<u>368,392</u>

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For the years ended June 30, 2024 and 2023 the Trust's total investment portfolio matures as follows.

June 30, 2024					
MMDT					
		GICs	U.S. Treasuries and Agencies	Short-term Bond Portfolio	Total investments
Less than 1 year	\$	12,358	40,069	104,333	156,760
One to five years		9,483	121,382	—	130,865
Six to ten years		11,104	41,165	—	52,269
More than ten years		—	28,498	—	28,498
	\$	32,945	231,114	104,333	368,392

June 30, 2023					
MMDT					
		GICs	U.S. Treasuries and Agencies	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

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, 2024 and 2023 accrued interest receivable for investments totaled \$1,966, and \$5,338, respectively. The Trust recognized \$15,412 and \$20,078 of interest income from investments for fiscal year 2024 and 2023, 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	2024		2023	
Mass Mutual Financial Group	\$ 32,945	9 %	\$ 118,268	21 %
Natixis Funding Corp.	—		42,708	8
Citigroup Global Markets Inc.	—		35,856	6

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

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“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 Trust’s investments are in U.S. Treasuries and Agencies, MMDT Short-term Bond Fund and GICs. 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 GICs 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 DSRFs was structured in its principal and interest return to support debt service on the related bonds. Investments in the MMDT Short-term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the MMDT Short-term Bond Portfolio by using duration.

(6) Capitalization Grants

Base 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 FFY. 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.

IIJA/BIL Grants

The IIJA/BIL of 2021 was signed into law in November 2021. The IIJA/BIL created five new SRF specific grants, two for the CWSRF program and three for the DWSRF program that are available each year beginning FFY 2022 until FFY 2026.

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CWSRF Supplemental Grant. The grant functions like the CWSRF base 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 CWSRF Supplemental grant contains a 4% administrative allowance and 2% small system technical assistance allowance. 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. There is no state match requirement for this grant. Grant conditions require the full amount of the total grant funds to be provided as loan forgiveness to eligible recipients.

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. 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. There is no state match requirement for this grant. The DWSRF EC grant contains the same set-asides as described above for the DWSRF base grant. However, the Trust has not elected any set-asides from these grants, rather all grant funds are being utilized to fund projects. The DWSRF EC Grant is expected to target per- and polyfluoroalkyl substances (PFAS) remediation projects. Grant conditions 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 LSLs. 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. For purposes of the BIL, the Trust expanded the definition of disadvantaged communities to include an "Environmentally Disadvantaged Community" designation for a public water supplier that has lead in the water supply and/or lead service lines in the system. The DWSRF LSL grant contains the same set-asides as described above for the DWSRF base grant. Eligible uses of these set-asides for the LSL grant include providing grants to public water suppliers to fund LSL planning and inventory projects and to provide technical assistance.

American Rescue Plan Act (ARPA) Funding

In fiscal year 2022, 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 fiscal year 2023, 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. As of June 30, 2024, the Trust has obligated all of its ARPA funds to provide loan forgiveness for its 2021 and 2022 IUP projects and has disbursed \$171,428 as of June 30, 2024.

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Transfer of Funds Between CWSRF and DWSRF Programs

Section 302 of the 1996 Safe Drinking Water Act Amendments allows states the flexibility to move funds between the CWSRF and the DWSRF programs, to better address specific state priorities. The EPA allows an equivalent of up to 33% of the DWSRF grant to be transferred between the SRF programs. The level of federal grant funding of the DWSRF is insufficient to meet the need for project financing.

The DWSRF grant requires more funds be given away as additional subsidy and provides up to 31% as set-aside funds to be used. As a result, a sizable portion of the DWSRF does not revolve back into the Trust, which limits the program's capacity growth. In contrast, the CWSRF annual grant requires 10% of the annual amount to be given away as additional subsidy and 4% to be used for program administration. This has allowed a substantial portion of the CWSRF to revolve annually, thereby increasing program capacity.

To address this funding insufficiency, the Trust transfers the limited amount allowed from the CWSRF to the DWSRF annually allowing for modest increases in the capacity of the DWSRF and reducing the imbalance in the ability to provide financing.

BIL similarly allows states the flexibility to move funds between the CWSRF and DWSRF programs for the BIL Supplemental grants and the EC Grants. The Trust has taken the opportunity to leverage additional BIL funding to further increase DWSRF's capacity.

CWSRF Grant Transfer to DWSRF History

Grant Year	Base Grant	BIL Grants	Other *	Total Transfer
2023	\$ 3,499	18,418	-	21,917
2022	5,365	16,953	-	22,318
2021	8,502	-	-	8,502
2020	8,431	-	30,000	38,431
2019	8,426	-	-	8,426
2018	8,505	-	-	8,505
2017	5,055	-	-	5,055
2016	5,099	-	-	5,099
2015	5,390	-	-	5,390
2014	5,426	-	-	5,426
2013	5,181	-	-	5,181
	\$ 68,879	35,371	30,000	134,250

* Pursuant to the Water Infrastructure Funding Transfer Act and applicable EPA Guidance, this one-time transfer was allowed to address lead in drinking water.

Grant Awards Summary and Grant Revenue

Federal grant revenue is recognized in accordance with the funding availability schedules contained within the individual grant agreements. These grants require that the Trust enter binding project commitments with local government units in an amount equal to the sum of the federal grant award and state matching funds, if any, within one year of the date the federal grant funds were made available. Under the state matching grant, typically drawn prior to fiscal year end, revenue is unearned until the Federal grant is awarded, at which time state matching revenue is recognized.

The following tables depict the federal grant awards and the required state match grants received from the Commonwealth. It further provides the federal grant revenue and state matching grant revenue recognized in fiscal years 2024 and 2023 as well as the unearned revenue recorded as of June 30, 2024 and 2023.

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	Grant Award	Revenue Recognized FY 2023	EPA Grants		Unearned Revenue June 30, 2024
			Unearned Revenue June 30, 2023	Revenue Recognized FY 2024	
FFY 2022 Grants					
CWSRF Base grant ^(a)	\$ 39,285	39,285	-	-	-
CWSRF Supplemental grant ^(b)	60,428	45,321	15,107	15,107	-
CWSRF 2021 OSG grant ^(a)	1,744	1,744	-	-	-
CWSRF 2022 OSG grant ^(a)	1,097	-	-	1,097	-
Total CWSRF	102,554	86,350	15,107	16,204	-
DWSRF Base grant ^(a)	16,260	16,260	-	-	-
DWSRF Supplemental grant ^(b)	41,750	31,313	10,437	10,437	-
DWSRF EC (PFAS) grant ^(b)	20,706	16,675	4,031	4,031	-
DWSRF LSL replacement grant ^(c)	65,783	32,891	32,892	-	32,892
Total DWSRF	144,499	97,139	47,360	14,468	32,892
FFY 2023 Grants					
CWSRF Base grant ^(a)	25,469	-	-	25,469	-
CWSRF Supplemental grant ^(b)	70,769	-	-	53,077	17,692
CWSRF EC (PFAS) grant ^(a)	3,720	-	-	3,720	-
Total CWSRF	99,958	-	-	82,266	17,692
DWSRF Base grant ^(a)	10,602	-	-	10,602	-
DWSRF 2021 Addl Base grant ^(a)	237	-	-	237	-
DWSRF Supplemental grant ^(b)	45,206	-	-	33,905	11,301
DWSRF EC (PFAS) grant ^(b)	16,404	-	-	12,303	4,101
DWSRF LSL replacement grant ^(d)	33,700	-	-	-	33,700
Total DWSRF	106,149	-	-	57,047	49,102
Total	\$ 453,160	183,489	62,467	169,985	99,686

^(a) The Trust elected to have the all Base and OSG grant federal funds available in the first quarter of the FFY.

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

^(c) Trust originally elected to have the grant federal 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.

^(d) The Trust elected to have the grant federal funds available 7/1/2025.

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			State Match			
	Federal Grant Award	State Match Required	Revenue Recognized FY 2023	Unearned Revenue June 30, 2023	Revenue Recognized FY 2024	Unearned Revenue June 30, 2024
FFY 2022 Grants						
CWSRF Base grant	\$ 39,285	20%	7,857	7,857	-	-
CWSRF Supplemental grant	60,428	10%	6,043	6,043	-	-
CWSRF 2021 OSG grant ^(a)	1,744	25%	436	-	-	-
CWSRF 2022 OSG grant ^(a)	1,097	25%	274	-	-	-
Total CWSRF	102,554		14,610	13,900	-	-
DWSRF Base grant	16,260	20%	3,252	3,252	-	-
DWSRF Supplemental grant	41,750	10%	4,175	4,175	-	-
DWSRF EC (PFAS) grant	20,706	0%	-	-	-	-
DWSRF LSL replacement grant	65,783	0%	-	-	-	-
Total DWSRF	144,499		7,427	7,427	-	-
ARPA Revenue Replacement Grant ^(b)	-		201,865	201,865	-	-
FFY 2023 Grants ^(c)						
CWSRF Base grant	25,469	20%	5,094	-	5,094	5,094
CWSRF Supplemental grant	70,769	10%	7,077	-	7,077	7,077
CWSRF EC (PFAS) grant	3,720	0%	-	-	-	-
Total CWSRF	99,958		12,171	-	12,171	12,171
DWSRF Base grant	10,602	20%	2,120	-	2,120	2,120
DWSRF 2021 Addl Base grant	237	20%	47	-	-	-
DWSRF Supplemental grant	45,206	10%	4,521	-	4,521	4,521
DWSRF EC (PFAS) grant	16,404	0%	-	-	-	-
DWSRF LSL replacement grant	33,700	0%	-	-	-	-
Total DWSRF	106,149		6,688	-	6,641	6,641
FFY 2024 Grants ^(d)						
CWSRF Base grant	27,717	20%	5,543	-	-	5,543
CWSRF Supplemental grant	77,212	20%	15,442	-	-	15,442
CWSRF EC (PFAS) grant	7,285	0%	-	-	-	-
CWSRF 2024 OSG grant ^(a)	1,051	25%	263	-	-	-
Total CWSRF	113,265		21,249	-	-	20,986
DWSRF Base grant ^(e)	10,078	20%	2,016	-	-	2,001
DWSRF Supplemental grant	49,350	20%	9,870	-	-	9,870
DWSRF EC (PFAS) grant	16,404	0%	-	-	-	-
DWSRF LSL replacement grant	50,095	0%	-	-	-	-
Total DWSRF	125,927		11,886	-	-	11,871
Total	\$ 692,352		275,896	223,192	18,812	18,812
					18,812	32,857

- ^(a) The state match for the CWSRF OSG grants is funded from interest earnings on the State Match Fund rather than a grant from the Commonwealth.
- ^(b) In fiscal year 2022, 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 fiscal year 2023, the Trust was awarded an additional \$15,000 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.
- ^(c) 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.
- ^(d) FFY 2024 grants were awarded to the Trust in September 2024 and federal grant funds were made available beginning October 1, 2024. The Trust receives its state matching funds associated with the FFY 2024 federal grants in June 2024, therefore the full amount of the state matching funds received is recorded as unearned revenue as of June 30, 2024.
- ^(e) \$2,001 of state match was funded by a grant from the Commonwealth; the remaining \$15 was funded from interest earnings on the State Match Fund.

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Grants Receivable

The following table depicts the Trust's EPA grants receivable balance as of June 30, 2024, by program and grant. The Trust received its state match funds in June 2024 prior to the receipt of the federal grants which are expected to be awarded in August 2024. As a result, there is no grant receivable balance for state match funds as of June 30, 2024.

	Grants Receivable			Grants Receivable June 30, 2024
	Grants Receivable June 30, 2023	Grants Awarded	Grant Funds Drawn	
FFY 2021 Grants				
CWSRF Base grant	\$ 322	-	(322)	-
CWSRF OSG grant	1,744	-	-	1,744
Total CWSRF	2,066	-	(322)	1,744
DWSRF Base grant	847	-	(847)	-
DWSRF Add'l Base grant	-	237	(237)	-
DWSRF Expanded SWIG Program	2,953	-	(90)	2,863
Total DWSRF	3,800	237	(1,174)	2,863
FFY 2022 Grants				
CWSRF Base grant	23,461	-	(23,461)	-
CWSRF Supplemental grant	60,428	-	(33,196)	27,232
CWSRF OSG grant	-	1,097	-	1,097
Total CWSRF	83,889	1,097	(56,657)	28,329
DWSRF Base grant	8,316	-	(7,841)	475
DWSRF Supplemental grant	41,750	-	(23,708)	18,042
DWSRF EC (PFAS) grant	20,706	-	(5,965)	14,741
DWSRF LSL replacement grant	65,638	-	(12,662)	52,976
Total DWSRF	136,410	-	(50,176)	86,234
FFY 2023 Grants				
CWSRF Base grant	-	25,469	(24,249)	1,220
CWSRF Supplemental grant	-	70,769	-	70,769
CWSRF EC (PFAS) grant	-	3,720	-	3,720
Total CWSRF	-	99,958	(24,249)	75,709
DWSRF Base grant	-	10,602	(451)	10,151
DWSRF Supplemental grant	-	45,206	-	45,206
DWSRF EC (PFAS) grant	-	16,404	-	16,404
DWSRF LSL replacement grant	-	33,700	-	33,700
Total DWSRF	-	105,912	(451)	105,461
Total	\$ 226,165	207,204	(133,029)	300,340

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. Additionally, the Trust draws on its federal grants for eligible costs under the administrative funds and set-asides.

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(7) Loans Receivable

Overview

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 and DWSRF programs. The Trust's loan process is dictated by the IUPs MassDEP compiles annually, one for each SRF program. Refer to note 1(b) for more information.

Borrower Loans

The Trust provides each borrower with 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 a general or special obligation bond to the Trust referred to as a "local bond" in order to secure their respective loan repayment obligations.

The Trust and MassDEP have identified projects and/or initiatives to receive a higher rate of subsidy. The following loan programs work to further various program or state goals by providing a higher rate of subsidy.

Lead Abatement Programs. Lead has been a long-standing public health issue; especially given the severe health risk lead poses to infants and small children. The Trust is furthering the Commonwealth's commitment to providing lead-free drinking water by committing more than \$30,000 for loan forgiveness to DWSRF projects that remediate lead in drinking water or planning projects that identify sources of lead for remediation. The subsidy funds for lead removal projects are in addition to the loan forgiveness provided by the Trust from other sources. Additionally, the Trust and MassDEP are providing grants for projects that assist public water suppliers with developing lead service line inventories and full replacement programs. Funding for these grants is being provided by the BIL LSL replacement grant set aside funds.

0% Nutrient Enrichment Reduction Loans. Due to Massachusetts' geographic location and population distribution, many communities are coastal or on rivers that flow into saltwater bodies. This leads to wastewater pollution and additional nitrogen being deposited into saltwater areas. An increase in nitrogen in affected saltwater bodies can create algae blooms which negatively affect animal habitats, cause fish kills, and cause a reduction in shellfish production. Lower water quality is both an environmental and economic issue for coastal communities. This CWSRF nutrient enrichment reduction loan program provides 0% interest rate loans for qualified projects to encourage communities to move such projects forward.

Loan Interest Rate Reduction for Housing Choice Designation. The Commonwealth has focused on creating affordable housing throughout the state. The Trust has joined with other state agencies in providing incentives to communities to participate in the Housing Choice Initiative by providing a 0.50% interest rate reduction to both CWSRF and DWSRF loans. Loans cannot have less than 0% interest rate.

PFAS Mitigation Loans. The Trust provides a 0% interest rate loan program for projects that remediate PFAS in public water supplies. PFAS are a family of chemicals widely used to manufacture common consumer goods and can be found in some legacy firefighting foams. Adverse health effects of humans exposed to elevated levels of PFAS may include hepatic, cardiovascular, endocrine, immune, reproductive, and developmental effects. These 0% interest DWSRF loans help public water suppliers that have identified PFAS in their water to complete the remediation projects that are vital to providing clean drinking water to residents.

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AMP Grants. Asset management for water infrastructure is a systematic approach to making financial decisions that are most likely to achieve long-term sustainability and deliver consistent service in a cost-efficient manner. By helping a utility make better decisions regarding the timing and location for asset repairs, replacements or rehabilitation, and by developing a long-term funding strategy, the utility can ensure its ability to deliver the required level of service in perpetuity. The purpose of this grant program is to assist eligible entities with completing, updating or implementing an AMP for wastewater, drinking water and stormwater utilities. This program also promotes cybersecurity assessments to address vulnerabilities in the water systems and to protect public health and the environment.

SWIG Program. The goal of the SWIG program is to reduce lead in school drinking water to 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 test above the remediation lead action level of 1 part per billion.

Types of Loans Receivable

Interim Loans. 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.

Leveraged Loans. 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 as leveraged loans.

Direct Loans Pledged for Bond Debt Service. The loans securing the SRF Bonds that are funded with SRF Equity Program Funds are referred to as direct loans pledged for bond debt service.

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A summary of loan receivables as of June 30, 2024 and 2023 is as follows.

Loans Receivable						
<i>(in thousands)</i>						
	<u>Leveraged Loans</u>	<u>Direct Loans Pledged</u>	<u>Other Direct Loans</u>	<u>Interim Loans</u>	<u>Loan Forgiveness</u>	<u>Total Loans</u>
Balance June 30, 2023	\$ 3,090,109	710,905	4,633	459,019	(172,912)	4,091,754
Payments received	(276,709)	(35,507)	(642)	—	—	(312,858)
Project disbursements	—	—	—	463,340	(129,592)	333,748
Permanently financed loans	279,107	183,774	—	(291,023)	—	171,858
Projects completed	—	—	—	(16,808)	16,808	—
Transfer due to bond redemptions	(441,533)	441,533	—	—	—	—
Balance June 30, 2024	<u>\$ 2,650,974</u>	<u>1,300,705</u>	<u>3,991</u>	<u>614,528</u>	<u>(285,696)</u>	<u>4,284,502</u>

In November 2023, the Trust issued its SRF Bonds Series 25 Bonds in the capital markets. The proceeds from these SRF Bonds were used to provide capital for \$279,107 of leveraged loans to borrowers for water infrastructure, replacing the interim or construction loans, and established the repayment schedules. Securing these SRF Bonds were \$183,774 of loans funded by SRF Program Equity Funds (direct loans pledged).

Loan Forgiveness. Loan forgiveness includes additional subsidies provided to communities that would not otherwise be able to afford projects (“affordability subsidies”) as well as subsidies for the previously discussed priority initiatives. Loan forgiveness reduces the total principal and interest costs paid over the life of a loan.

Loan forgiveness is reported on the Statement of Revenue, Expenses and Changes in Net Position as funds are disbursed. Loan forgiveness is a contra asset account on the Statement of Net Position. 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 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. Each of the BIL grants require specific percentages of additional subsidy as described in note 5.

The Trust applies subsidy funds to communities that are deemed disadvantaged communities based on an Affordability Calculation. 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.

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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.

Loan forgiveness is reported on the Statements of Revenues, Expenses and Changes in Net Position as funds are disbursed. The following table summarizes the types of loan forgiveness disbursed during fiscal year 2024 and 2023.

Summary of Loan Forgiveness
(In thousands)

	June 30	
	2024	2023
Affordability and priority project subsidies:		
ARPA - CWSRF and DWSRF projects	\$ 84,068	87,360
BIL - CWSRF and DWSRF projects	19,723	-
BIL EC (PFAS) projects	5,964	-
BIL LSL Replacement projects	5,217	-
Prior to 2021 IUP Projects ^(a)	4,513	14,922
Total affordability and priority project subsidies	119,485	102,282
LSL planning and inventory grants ^(b)	10,512	251
AMP grants ^(c)	2,303	1,855
SWIG grants ^(d)	144	723
Total loan forgiveness	<u>\$ 132,444</u>	<u>105,111</u>

(a) Funded with Commonwealth grant funds including additional contract assistance payments.

(b) Funded with BIL LSL grant set-aside funds and WIFTA funds.

(c) Funded with Trust's program funds.

(d) Funded with Commonwealth grant funds.

Loans Payment Terms

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, 2024 and 2023 accrued interest receivable from borrowers totaled \$29,450, and \$27,560, respectively. The Trust recognized \$69,029 and \$66,699 of interest income from borrowers for fiscal year 2024 and 2023, respectively.

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Aggregate principal maturities on loans receivable are as follows:

		Leveraged Loans	Direct Loans Pledged	Other Direct Loans	Total Permanently Financed Loans
Years ending June 30:					
2025	\$	219,431	96,279	618	316,328
2026		208,016	96,628	630	305,274
2027		185,678	98,353	631	284,662
2028		186,803	84,205	631	271,639
2029		190,336	73,803	618	264,757
2030–2034		811,296	308,856	863	1,121,015
2035–2039		522,774	236,631	—	759,405
2040–2044		278,838	118,341	—	397,179
2045–2049		37,727	115,724	—	153,451
2050–2053		10,075	71,885	—	81,960
	\$	<u>2,650,974</u>	<u>1,300,705</u>	<u>3,991</u>	<u>3,955,670</u>

(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.

Master Trust Agreement

The Trust issues its SRF Bonds pursuant to a Master Trust Agreement (MTA) that replaced the older Program Resolution in 2015 at which time 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.

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.

Program Resolution

Prior to 2015, 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. As of June 30, 2024, there are no longer Single Obligor Bonds outstanding for MWRA, SESD or the City of New

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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 following is a summary of bonds payable as of June 30, 2024 and 2023.

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2023	Additions	Redemptions	Refunded	Payments / Amortization	Balance June 30, 2024
Senior revenue bonds:									
Series 6	Pool Loan	11/8/2000	8/1/2023	\$ 840	—	—	—	(840)	—
Series 2002A	MWRA	10/31/2002	8/1/2032	3,535	—	(2,970)	—	(565)	—
Series 8	Pool Loan	11/26/2002	8/1/2026	3,280	—	(2,465)	—	(815)	—
Series 9	Pool Loan	11/6/2003	8/1/2027	4,800	—	(4,360)	—	(440)	—
Series 11	Pool Loan	11/16/2005	8/1/2025	1,160	—	(590)	—	(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	227,605	—	—	—	(22,475)	205,130
Series 18	MTA	1/7/2015	2/1/2045	161,480	—	—	(161,480)	—	—
Series 19	MTA	2/11/2016	2/1/2046	147,300	—	—	—	(10,045)	137,255
Series 2017 Rfdg	MTA	4/13/2017	8/1/2029	59,710	—	—	—	(10,120)	49,590
Series 20	MTA	4/13/2017	2/1/2047	163,930	—	—	—	(7,950)	155,980
Series 21	MTA	9/12/2018	8/1/2038	137,630	—	—	—	(6,945)	130,685
Series 22	MTA	10/24/2019	8/1/2039	170,985	—	—	—	(7,205)	163,780
Series 2020 Rfdg	MTA	5/21/2020	8/1/2042	87,305	—	—	—	—	87,305
Series 23	MTA	5/11/2021	2/1/2041	326,255	—	—	—	(12,645)	313,610
Series 24	MTA	12/14/2022	2/1/2043	280,155	—	—	—	(9,480)	270,675
Series 2022 Rfdg	MTA	12/14/2022	2/1/2043	107,560	—	—	—	(9,000)	98,560
Series 25	MTA	11/21/2023	2/1/2044	—	256,860	—	—	—	256,860
Series 2023 Rfdg	MTA	11/21/2023	2/1/2044	—	137,260	—	—	—	137,260
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	18,010	—	—	—	(9,580)	8,430
Series 2006	Pool Loan	12/14/2006	8/1/2034	195,085	—	—	—	(46,605)	148,480
Series 2014	Pool Loan	6/12/2014	8/1/2028	227,725	—	(178,925)	—	(48,800)	—
Subtotal				2,351,025	394,120	(215,985)	(161,480)	(204,080)	2,163,600
Add unamortized bonds premium				239,101	35,152	(4,462)	(12,127)	(37,139)	220,525
Total bonds payable				\$ 2,590,126	429,272	(220,447)	(173,607)	(241,219)	2,384,125

Series 25A and 25B and 2023 SRF Refunding Bonds

On November 21, 2023, the Trust issued State Revolving Fund Bonds Series 25A (Green Bonds) and 25B (Sustainability Bonds), together Series 25 Bonds, in the par amount of \$256,860 with a premium of \$22,257. The \$144,990 Series 25A 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 seventh Green Bond issuance. The \$111,870 Series 25B were designated by the Trust as "Sustainability Bonds" based on the intended use same as the Green Bonds and the designation of the Series 25B borrowers as Tier 3 disadvantaged communities. For more information refer to note 3.

Series 25 Bond proceeds funded \$279,107 in loans for CWSRF and DWSRF projects. The Trust anticipates expending all the proceeds within two years. In connection with the issuance of the Series 25 Bonds, the Trust pledged \$183,774 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

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on the direct loans are pledged as further security for the Trust's bonds. For more information refer to note 7.

On November 21, 2023, the Trust issued SRF Refunding Bonds Series 2023 (Green Bonds) in the par amount of \$137,260 with a premium of \$12,895. Bond proceeds together with other funds of the Trust were used to refund \$161,480 of outstanding Series 18A and 18B Bonds. The Trust has decreased its aggregate debt service payments by \$27,877 for the 2023 Refunding Bonds over the twenty years ending June 2045. The economic gain (the present value of the debt service savings) for the Trust through this transaction is \$15,578 using a discount rate of 3.577571%.

Redemptions and Defeasances

On August 11, 2023, the Trust redeemed \$2,465 of the Trust's Pool Program Series 8 bonds; \$4,360 of Series 9 bonds; and \$590 of Series 11 outstanding bonds using proceeds received from the termination of each series of bonds related GIC investments. The GIC investments terminated were \$14,826 of investments with Natixis from Series 8 DSRF; \$24,755 of investments with MassMutual from Series 9 DSRF; and \$8,022 of investments with MassMutual from Series 11 DSRF.

In May 2024, the Trust redeemed \$3,845 of the Trust's Single Obligor MWRA 1999A bonds; \$2,970 of Single Obligor MWRA 2002A bonds; and \$22,830 of the Trust's Pool Program Series 12 bonds using proceeds received from the termination of each series of bonds related GIC investments. The GIC investments terminated were \$25,188 of investments with MassMutual from MWRA 1999A DSRF; \$14,652 of investments with Natixis from MWRA 2002A DSRF; and \$26,596 of investments with Citigroup from Series 12 DSRF.

On May 30, 2024, the Trust used \$181,780 of SRF Program Equity Funds to defease \$46,295 of the outstanding Series 2014 Refunding Bonds with a call date of August 1, 2024 and \$132,630 of the noncallable bonds of the outstanding Series 2014 Refunding Bonds. These funds were deposited with an escrow agent in an irrevocable trust to provide resources to fulfill all future debt service payments on the refunded bonds. As a result, the refunded bonds are defeased and the liability has been removed from the financial statements. The total debt defeased through this transaction was \$178,925. 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, there were no outstanding defeased bonds in an irrevocable trust. The outstanding balance of bonds defeased "in substance" and still outstanding as of June 30, 2024 are as follows.

Description	Redemption Date	Outstanding principal amount	
		2024	2023
Series 2014 Rfdg	August 1, 2024	\$ 96,010	\$ -
Series 2014 Rfdg	August 1, 2025	51,635	-
Series 2014 Rfdg	August 1, 2026	31,280	-

Additionally, on August 1, 2024, the Trust terminated \$23,855 of its GIC investments and \$6,069 DSF Subsidy fund with MassMutual related to the 2014 Refunding Bonds.

Series 15B Build America 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

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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 the 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 President Obama 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 \$3,558 and \$3,932 in BABs subsidies for fiscal year 2024 and 2023, respectively.

Debt Service

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 5.25% and each series is payable semiannually with the latest maturity occurring in fiscal year 2047. 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, 2024 and 2023 accrued expenses and interest payable totaled \$49,300 and \$52,543, respectively.

Debt service on the Trust's bonds is paid from a combination of three sources:

Borrower payments. Payments on the Trust's loans are due to the Trust fifteen (15) days in advance of debt service payments on the Trust's bonds.

Earnings. All earnings received on the assets pledged to the respective series of bonds.

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 in the amount of \$216,744 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.

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As of June 30, 2024, debt service requirements to maturity for principal and interest are as follows.

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
Year ending June 30:			
2025	\$ 160,685	109,119	269,804
2026	150,195	97,599	247,794
2027	140,120	90,339	230,459
2028	139,425	83,341	222,766
2029	146,385	76,195	222,580
2030–2034	681,565	273,270	954,835
2035–2039	483,865	128,841	612,706
2040–2044	250,285	31,740	282,025
2045–2047	11,075	973	12,048
Total debt service requirements	<u>\$ 2,163,600</u>	<u>891,417</u>	<u>3,055,017</u>

When the Trust refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the bonds being refunded. A resulting accounting gain is recorded as deferred inflow of resources while a resulting accounting loss is recorded as a 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 details of the accounting gains and losses on debt refunding as of June 30, 2024 and 2023 is as follows.

Deferred Outflow/Inflow of Resources					
	<u>Balance June 30, 2023</u>	<u>Amortization</u>	<u>New Addition</u>	<u>Redemptions</u>	<u>Balance June 30, 2024</u>
2004A Refunding	\$ 114	(78)	—	—	36
2006 Refunding	3,913	(805)	—	—	3,108
2014 Refunding	6,234	(3,648)	—	(2,586)	—
2017 Refunding	411	(143)	—	—	268
Deferred outflow of resources / accounting loss	<u>\$ 10,672</u>	<u>(4,674)</u>	<u>—</u>	<u>(2,586)</u>	<u>3,412</u>
2020 Refunding	(138)	18	—	—	(120)
2022 Refunding	(5,255)	2,029	—	—	(3,226)
2023 Refunding	—	2,454	(10,036)	—	(7,582)
Deferred inflow of resources / accounting gain	<u>\$ (5,393)</u>	<u>\$ 4,501</u>	<u>\$ (10,036)</u>	<u>\$ -</u>	<u>\$ (10,928)</u>

Derivative Instrument Transactions

The Trust's last interest rate swap agreement outstanding (the CPI swap agreement), which was issued in connection with its Pool Program Refunding Bonds, Series 2006 Bonds terminated August 1, 2023. As of June 30, 2024, there are no outstanding swap agreements.

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At June 30, 2023 the Trust reported \$254 as deferred inflow of resources on the statement of net position, representing the payment due from the CPI swap agreement counterparty for the positive valuation of its hedging derivative instruments in the accompanying financial statements.

(9) Net Position

As of June 30, 2024 and 2023, the Trust has a restricted net position in the amount of \$2.77 billion and \$2.69 billion, respectively, and an unrestricted net position in the amount of \$922,179 and \$806,861 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 \$2.50 billion and \$2.39 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 a reserve for future project subsidies to provide a higher rate of subsidy on certain priority projects and/or initiatives approved by the Board of Trustees. For more information refer to note 3 for details of other restricted funds.

(10) Commitment

As of June 30, 2024 and 2023, the Trust has agreed to provide interim financing loans to eligible borrowers amounting to approximately \$560,870 and \$532,342, respectively, excluding loan amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

(11) Other Assets

As of June 30, 2024 and 2023, the Trust has prepaid \$2,614 and \$2,774, respectively, of DEP contracts. These amounts are included in Other Assets on the Statements of Net Position. The balance as of June 30, 2023, also include the CPI swap agreement receivable in the amount of \$254.

(12) 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.

At its meeting on March 22, 2024, the CCIWPF Management Board voted final subsidy awards for projects on the 2021 IUP. This vote reflects final subsidies based on Project Regulatory Agreements (PRA), and a reduction in the total subsidy provided by the CCIWPF from 25% to 10%, in light of the 15% subsidy to

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borrowers from the Trust with funds from the American Rescue Plan Act (ARPA). The CCIWPF Management Board also voted final subsidy awards for projects on the 2022 IUP. This vote reflects final subsidies based on PRAs, and a reduction in the total subsidy provided by the CCIWPF from 25% to 5%, in light of the 20% subsidy to borrowers from the Trust with funds from ARPA. These adjustments to subsidy awards resulted in \$6,146 of funds returned to the CCIWPF.

At its meeting on March 22, 2024, the CCIWPF Management Board voted to adopt a new subsidy model for projects that appeared on the 2023 IUP and those thereafter, whereby principal subsidies will be paid in equal amounts over the life of an executed loan agreement between the qualified borrower and the Trust, beginning with the first principal payment. Previously, the CCIWPF Management Board voted contingent subsidy awards for projects on the 2023 IUP in the amount of \$10,486 at its June 13, 2023 meeting. These amounts were also returned to the CCIWPF.

The Trust acts as servicer to the 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.