

Comprehensive Annual **FINANCIAL REPORT**

As of and for the years ended June 30, 2018 and June 30, 2017

Prepared by the Management of the Massachusetts Clean Water Trust

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MASSACHUSETTS
CLEAN WATER TRUST

A Component Unit of the Commonwealth of Massachusetts

Comprehensive Annual **FINANCIAL REPORT**

As of and for the years ended June 30, 2018 and June 30, 2017

Prepared by the Management of the Massachusetts Clean Water Trust

In the U.S. alone, an estimated 76% of the population depends on nearly 15,000 water resource recovery facilities and a vast network of hidden infrastructure for wastewater services. An additional 56 million people are expected to connect to these centralized systems by 2032.

MASSACHUSETTS CLEAN WATER TRUST
*Comprehensive Annual Financial Report as of and for the Years Ended
June 30, 2018 and June 30, 2017 and Independent Auditors' Report*

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MASSACHUSETTS
CLEAN WATER TRUST

A Component Unit of the Commonwealth of Massachusetts

INTRODUCTORY SECTION

As of and for the years ended June 30, 2018 and June 30, 2017

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MESSAGE FROM THE CHAIR

Introductory Section • Comprehensive Annual Financial Report

MESSAGE FROM THE CHAIR

December 28, 2018

The Massachusetts Clean Water Trust (the Trust) is pleased to submit our Clean Water and Drinking Water State Revolving Fund (SRF) Comprehensive Annual Financial Report for State Fiscal Year (SFY) 2018. The Trust SRF loan program is a collaborative effort between the State Treasurer's Office, the Executive Office for Administration and Finance, the Massachusetts Department of Environmental Protection (MassDEP) and borrower communities across the Commonwealth. To date, approximately \$2.4 billion in federal grants and state matching funds have supported nearly \$7 billion in clean water and drinking water planning and construction projects through a leveraged financing program.

Local leaders rely on easy access to below-market rate financing to maintain and improve water infrastructure. The Trust continues to do our part by providing subsidized loans backed by AAA credit. In SFY 2018, the Trust provided cities and towns approximately \$232.6 million in commitments for low interest rate loans, including \$7.6 million in principal forgiveness to 17 projects, which will support an estimated 1,395 construction and engineering jobs. The financing will help improve waterway quality and promote public health through projects such as combined sewer overflow removal, wastewater and drinking water treatment plant upgrades, sewer system construction, septic system repairs, treated water storage and transmission improvements.

Additionally, the Trust has launched two new programs. An Incentivized Lead Service Line Replacement program was created to reduce the cost of full lead service line replacement for communities and homeowners, and an Asset Management Planning (AMP) Grant program was created to assist communities with completing or updating AMPs for wastewater, drinking water and stormwater systems. These new programs result from our deep commitment to supporting the Commonwealth's water infrastructure and the health of our residents.

I would like to take this opportunity to thank the staff of the Environmental Protection Agency Region 1 for their efforts during SFY 2018. I also would like to congratulate the staff of the Trust and MassDEP for a job well done. Finally, I would like to thank the cities and towns in Massachusetts. Without the dedication of all involved, our program would not be a success. I look forward to continuing this critical work together.

Sincerely,



Deborah B. Goldberg, Chair
Massachusetts Clean Water Trust
www.Mass.gov

LETTER OF TRANSMITTAL

Introductory Section • Comprehensive Annual Financial Report



December 28, 2018

To the Board of Trustees of the Massachusetts Clean Water Trust:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Massachusetts Clean Water Trust (the "Trust") for the fiscal year ended June 30, 2018. This year's CAFR is presented on a comparative basis with the fiscal year ended June 30, 2017, and is submitted under Article VII, Section 2 of the by-laws of the Trust. This report has been prepared in conformity with generally accepted accounting principles ("GAAP"), thereby satisfying applicable federal and state laws, program regulations, and other Trust agreements. This data presented is accurate in all material aspects and is reported in a manner that presents fairly the financial position and results of operations of the Trust. All disclosures necessary to enable the reader to gain an understanding of the Trust's activities have been included. The information contained within this report is the responsibility of management.

Reporting Entity

The Trust is reported as a component unit in the Commonwealth's Combined Annual Financial Report. Pursuant to its enabling statute, the Trust also submits its independently audited financial statements to the Commonwealth's Senate and House of Representatives, the Office of the Comptroller, and other interested parties. Also, as an entity receiving federal funding, the Trust is required to undergo an annual single audit to conform with the requirements of the Single Audit Act of 1984, as amended, and the Regulations of U.S. Office of Management and Budget. The Trust is governed by a three-member board of trustees chaired by State Treasurer and Receiver General, Deborah B. Goldberg. The Secretary of the Executive Office for Administration and Finance, Michael Heffernan, and Commissioner of the Department of Environmental Protection (MassDEP), Martin Suuberg, serve as members of the Board. The Trust operates under the direction of the Executive Director, Susan Perez, and is administered by employees of the State Treasurer. A list of Trust management and an organization chart follow this transmittal letter.

Profile of the Massachusetts Clean Water Trust

The Trust is a public instrumentality of the Commonwealth of Massachusetts which was established in 1989 to administer the Massachusetts Water Pollution Abatement Revolving Fund, pursuant to Title VI of the Federal Clean Water Act. Its enabling statute, Chapter 29C of the Massachusetts General Laws, was amended in 1998 to provide that the Trust would also administer the provisions of Title XIV of the Federal Safe Drinking Water Act establishing the Drinking Water State Revolving Fund. We estimate that 97% of the population of the Commonwealth is served by one of approximately 300 entities that have borrowed funds through the Trust. The Trust administers loan programs that provide funding to cities, towns, other governmental units and certain eligible private entities to finance improvements to drinking water and wastewater infrastructure. To qualify for a loan, the project must be approved by the MassDEP.

Information Useful in Assessing the Economic Condition of the Massachusetts Clean Water Trust

The Financial Section of this report provides information on the economic condition of the Trust. Please see Management's Discussion and Analysis in the Financial Section for a presentation of the Trust's financial condition. To assess the Trust's financial condition, it is essential to understand the Trust's loan programs.

LOAN PROGRAMS OF THE TRUST

The Trust administers two loan programs. The Clean Water State Revolving Fund (CWSRF), primarily finances wastewater infrastructure projects, including the Community Septic Management Program (CSMP), which finances improvements to private homeowner septic systems. The Drinking Water State Revolving Fund (DWSRF), primarily finances drinking water infrastructure projects. The Trust lends to cities, towns, other governmental units such as water and sewer authorities, and private water system operators. Since its inception the SRF loan program has provided nearly \$7 billion in loans to approximately 300 borrowers to improve and maintain the quality of water in the Commonwealth. To fund its operations, the Trust charges an administrative fee of 0.15% of principal outstanding per year on Clean Water and Drinking Water loans.

Clean Water Program

The Trust finances projects that focus on the development and rehabilitation of wastewater infrastructure while promoting sustainability, energy efficiency and green infrastructure. The CWSRF program provides additional subsidies to designated low income Affordability Communities and continues to perform outreach activities to help borrowers realize opportunities to implement energy efficiencies and alternative energy projects. Primary recipients of CWSRF loans have been combined sewer overflow, wastewater treatment and wastewater collection projects. Although other projects such as drainage improvements, landfill closures, brownfields remediation, renewable energy projects, and other non-point source projects are eligible for funding. Additionally, the CWSRF program provides additional subsidies to nutrient enrichment reduction projects. Currently, the standard loan offer is for a term of 20 years at a subsidized loan rate of 2%. The Trust may also provide an extended term for up to 30 years.

The Community Septic Management Program (CSMP) provides loans to Massachusetts' communities to assist homeowners in repairing failed septic systems. The Trust makes low interest rate loans to communities who, in turn, loan the funds directly to homeowners for up to 20 years. Loans to homeowners are secured through a betterment on the property. This program allows communities to provide access to capital for home repair at a subsidized interest rate.

Drinking Water Program

The Trust continues to support protection of public health by ensuring that all its public water suppliers have the necessary technical, financial, and managerial capacity to meet the current and foreseeable Safe Drinking Water Act requirements. The program continues to promote the completion of cost-effective projects that maximize protection of public health. The DWSRF projects typically involve construction and, or, rehabilitation of drinking water treatment plans, replacement of aging water mains and the construction of drinking water storage facilities. Currently, the standard loan offer is for a term of 20 years at a subsidized loan rate of 2%.

Interim Loan Program

Through the Trust's Interim Loan Program, funds are available to eligible projects on the Intended Use Plan (IUP) throughout the year to provide construction financing, similar to a bond anticipation note. Borrowers can enter into a short-term loan that enables projects to proceed prior to a Trust bond sale. The Trust can operate this program by extending the use of funds that have revolved back from loan repayments, along with its state and federal grants ("SRF Program Funds") as a source of capital. To make Trust financing even more appealing to borrowers, the Board of Trustees removed the interim loan interest rate and any associated fees in 2016. This change to the program makes interim loans from the Trust the least expensive access to capital possible for local communities.

FISCAL YEAR 2018 PROGRAM DISBURSEMENTS

	CWSRF Dollar Amount	CWSRF Number of Loans	DWSRF Dollar Amount	DWSRF Number of Loans	Total Dollar Amount	Total Number of Loans
Interim Loans	\$ 126,061,908	66	\$ 47,381,967	21	\$ 173,443,875	87
Pool Program Project Funds	28,088,656	34	7,912,639	15	36,001,295	49
TOTAL	\$ 154,150,564	100	\$ 55,294,606	36	\$ 209,445,170	136

TRUST'S FINANCING MODEL

Leveraged Financing Model

The SRF loan program receives funding from the EPA in the form of an annual grant, supplemented by state matching grants and the repayment of loans from borrowers. The Trust's SRF Program utilizes a "leveraged" financing model, under which SRF Program Funds are used as a source of security for revenue bonds ("SRF Bonds") issued by the Trust. The proceeds from the SRF bonds are used to fund loans to local cities, towns and other eligible borrowers for project costs.

The leveraged structure of the Trust's program permits the Commonwealth to substantially increase the amounts available to fund eligible project costs. Each federal grant and associated state matching grant dollar contributed to the program results in at least three dollars of project cost financing while assuring the perpetual nature of the revolving fund.

The Trust's lending and bond issuance programs are structured to ensure adequate cash flows for funding its loans and repaying bonds to maturity. Depending on the type of projects being financed, the terms of the loans to borrowers, and the subsidy levels to which the borrowers are entitled, the Trust applies its SRF Program Funds to fund either direct loans to borrowers or invest in reserve funds, which are then pledged as a source of payment and security for the SRF Bonds.

Pledged Direct Loans

The Trust uses its program equity to fund certain loans to borrowers rather than bond proceeds. These direct loans are pledged as additional security to SRF Bonds. As the direct loans are repaid, the interest payments on those loans are applied to debt service on the bonds, thus providing a subsidy to the loans funded with bond proceeds. The principal payments of the pledged direct loans are pledged as further security for the related series of SRF bonds in the case of default on loans funded with bond proceeds. Since 2012, the Trust has used the Pledged Direct Loan approach. As of June 30, 2018, the Trust has \$448.8 million in outstanding pledged direct loans.

TOTAL SOURCES OF REVENUE for FY 2018



Reserve Funds

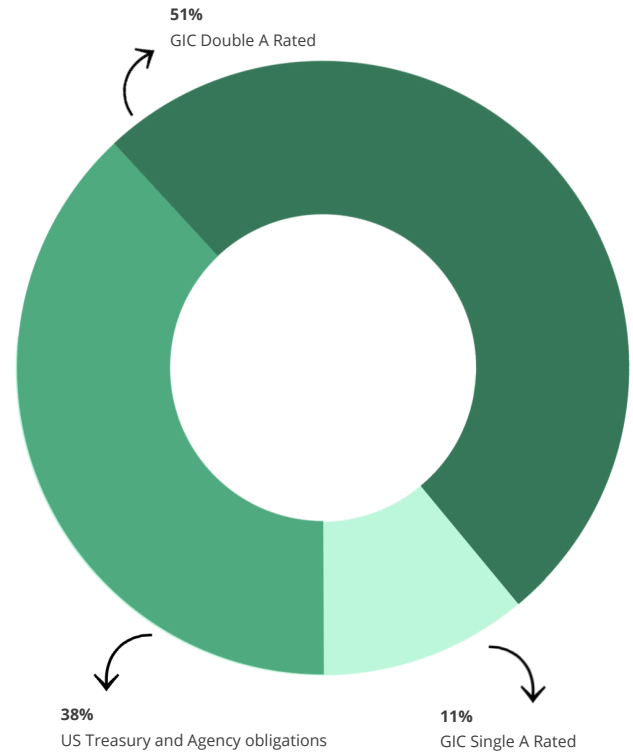
In the past, the Trust has applied a portion of its SRF Program Funds to establish reserve funds to secure a series of its SRF Bonds. Those investment earnings are then applied to pay a portion of the debt service on the related SRF Bonds, thereby supplementing the loan repayment obligation of the borrowers of the leveraged loans funded by such SRF Bonds. Pledged assets are initially held at this level as security for all SRF Bonds at an amount between 33% and 50% of the outstanding principal. As of June 30, 2018, the Trust held \$689.7 million in DSRF reserve funds invested in guaranteed investment contracts (GIC) and US Treasury and Agency obligations.

While economic factors have not affected the Trust's current financial position, macroeconomic stresses pose risks to the Trust's long-term investment portfolio. Over the past few years, a number of institutions providing GICs to the Trust have experienced downgrades by various rating agencies. These actions did not result in a downgrade to the Trust as the Trust has multiple providers which reduce concentration risk and contract provisions for collateralization upon credit downgrades. At this time, these factors have had no real effect on the Trust, as the overall credit quality of the Trust's investment portfolio remains strong as shown in the table.

As a result of the diversity of its loan portfolio, the size of its debt service reserve funds, and its support from the Commonwealth, the Trust's bonds are rated AAA by all three major credit agencies.

INVESTMENT BREAKDOWN

Debt Service Reserve Funds



Federal Capitalization Grants and State Matching Funds

In order to provide security to its bonds, the Trust pledges federal and state capitalization grant funds. The Trust has received significant federal and Commonwealth support. The Trust has received total combined support of \$2.4 billion to date which has provided funding for nearly \$7 billion in clean water and drinking water construction projects.

FEDERAL CAPITALIZATION GRANT AND STATE MATCHING FUNDS

	Clean Water Grant Awards	Drinking Water Grant Awards	Total Awards
Federal FY 2017 Grant Awards			
Federal Grant	\$ 45,014,000	\$ 15,319,000	\$ 60,333,000
State Grant	9,002,800	3,063,800	12,066,600
TOTAL	\$ 54,016,800	\$ 18,382,800	\$ 72,399,600
Program to Date Grant Awards			
Federal Grant	\$ 1,510,987,761	\$ 525,789,100	\$ 2,036,776,861
State Grant	275,586,092	94,714,620	370,300,712
TOTAL	\$ 1,786,573,853	\$ 620,503,720	\$ 2,407,077,573

The Trust's recent federal capitalization grant awards have included requirements to provide defined levels of subsidization (i.e., money not required to be repaid). The additional subsidy is dedicated to communities that would not otherwise be able to afford the project. Massachusetts chose to apply these funds to communities that were deemed Affordability Communities based upon requirements outlined in the Water Resource Reform and Development Act (WRRDA), which was approved by EPA Region 1.

The Trust's formula considers the per capita income, population trend from 2000-2010 and employment rate for each community to develop an adjusted per capita income. Each community is then ranked against the state average and communities below the state average and are sorted into three tiers. Tier 3 is less than 60% of the state average, tier 2 is 61% to 79.99% and tier 1 is 80% to 99.99%. Tier 3 communities receive a share and a half of subsidy, tier 2 receives one share and tier 1 receives a half a share. The Trust's formula provides the subsidy to communities that are most in need and provides all communities below the state average with an additional incentive to use the Trust. The table below provides the details of subsidization provided to date by grant.

Available Funds for Additional Subsidy by Program and SFY	Clean Water SRF	Drinking Water SRF
SFY	Dollar Amount	Dollar Amount
2018	\$4.5	\$3.1
2017	\$4.5	\$3.1

Long Term Financial Planning

Relative to its long-term financial position, one of the most important issues facing the Trust is the status of future federal support for the CWSRF and DWSRF. It is the policy of the Trust to allow MassDEP to approve projects only to the Trust's lending capacity. If federal funding declines, the Trust's ability to maintain or increase its lending activities will be limited without additional state support or increased contribution from the borrowers. While this does not affect the financial health of the Trust, it will affect the programs administered by the Trust.

The Trust's financial capacity is adequate to fund those projects currently approved by MassDEP, however, future growth in capacity of the Trust is dependent on federal appropriations to the State Revolving Fund programs, shown on the Trust's Financial Statements, footnote (6), as "Capitalization Grants." Additionally, because MassDEP's program administration is funded in part through a 4% administrative charge on federal grants, a reduction in federal grants would result in decreased funding for MassDEP. For the Trust's programs to continue, funding would need to be provided to MassDEP either by the Commonwealth or additional funding from the Trust's administrative fees.

Economic Factors Affecting the Trust

As a result of the Trust's highly-structured approach to lending and bonding, the finances of the Trust have not been dramatically affected by recent national economic stress. Although there are many current credit pressures affecting our borrowers, primarily municipalities, the project loans financed, and related pledged loan repayments are primarily supported by water and sewer enterprise systems and their own user-fee or rate-based revenue. As such, they are somewhat removed from the general fiscal and expenditure pressures that can face a municipality. Furthermore, the Trust benefits from a sizeable and diversified pool of borrowers which makes it less affected by significant deterioration of any single borrower.

Demand for Trust loans is dependent on the Commonwealth's need for drinking water and wastewater infrastructure, which remains strong. For 2018, the MassDEP received applications for over \$556 million in Clean Water projects and approved approximately \$442 million. MassDEP also received applications for over \$183 million of Drinking Water projects and approved \$93 million. Demand is expected to remain strong as communities work to meet tightening environmental standards and maintain an aging infrastructure. The current record low interest rate environment has somewhat reduced the value of the subsidization resulting from the below market rate being provided to the Trust's borrowers. However, the Trust expects to continue to award additional subsidization in the form of principal forgiveness to its eligible borrowers.

CLEAN WATER STATE REVOLVING FUND PERFORMANCE INDICATORS *

The Trust continues to be a national leader among State Revolving Fund administrators. The following is a three-year ranking of program indicator data compiled by EPA.

2018		2017		2016	
Total Loan Assistance Provided (Millions of Dollars)					
1 New York	\$ 16,895	1 New York	\$ 16,176	1 New York	\$ 15,472
2 California	10,735	2 California	10,034	2 California	8,594
3 Ohio	9,229	3 Ohio	8,383	3 Ohio	7,727
4 Texas	7,385	4 Texas	7,125	4 Texas	6,784
5 Massachusetts	6,340	5 Massachusetts	6,242	5 Massachusetts	6,007
National Average:	2,607	National Average:	2,473	National Average:	2,328
Assistance Provided as a Percent of Federal Capitalization Grants					
1 Rhode Island	627%	1 Rhode Island	600%	1 Rhode Island	600%
2 Arizona	522%	2 Arizona	529%	2 Arizona	546%
3 Connecticut	443%	3 Connecticut	440%	3 Connecticut	446%
4 Massachusetts	420%	4 Massachusetts	426%	4 Massachusetts	423%
5 Minnesota	419%	5 Minnesota	413%	5 Minnesota	401%
National Average:	307%	National Average:	300%	National Average:	290%
SRF Project Disbursements (Millions of Dollars)					
1 New York	\$ 15,708	1 New York	\$ 14,955	1 New York	\$ 14,099
2 California	8,149	2 California	7,498	2 California	6,867
3 Texas	7,326	3 Texas	7,066	3 Texas	6,725
4 Ohio	7,242	4 Ohio	6,578	4 Ohio	6,036
5 Massachusetts	5,682	5 Massachusetts	5,528	5 Massachusetts	5,305
National Average:	2,283	National Average:	2,159	National Average:	2,026
Total Loan Assistance Provided for Combined Sewer Overflow Projects (Millions of Dollars)					
1 Ohio	\$ 2,667	1 Ohio	\$ 2,148	1 Ohio	\$ 1,896
2 Michigan	1,941	2 Michigan	1,931	2 Michigan	1,894
3 New York	1,860	3 New York	1,805	3 New York	1,761
4 Massachusetts	1,375	4 Massachusetts	1,372	4 Massachusetts	1,357
5 Illinois	1,161	5 Illinois	1,090	5 Illinois	948
National Average:	283	National Average:	261	National Average:	244
Total Loan Assistance Provided for Secondary Treatment Project (Millions of Dollars)					
1 New York	\$ 10,284	1 New York	\$ 9,887	1 New York	\$ 9,359
2 California	4,049	2 California	3,972	2 California	3,764
3 Ohio	2,626	3 Illinois	2,502	3 Ohio	2,285
4 Illinois	2,518	4 Ohio	2,477	4 Illinois	2,216
5 Massachusetts	2,150	5 Massachusetts	2,140	5 Massachusetts	2,064
National Average:	905	National Average:	872	National Average:	827
Total Loan Assistance Provided for New Collector System Projects (Millions of Dollars)					
1 Massachusetts	\$ 970	1 Massachusetts	\$ 948	1 Massachusetts	\$ 932
2 Florida	946	2 Florida	911	2 Florida	904
3 Pennsylvania	745	3 Pennsylvania	723	3 Pennsylvania	715
4 New York	663	4 New York	650	4 New York	611
5 Arizona	433	5 Arizona	429	5 Arizona	429
National Average:	162	National Average:	158	National Average:	154
Total Loan Assistance Provided for Storm Water Projects (Millions of Dollars)					
1 New Jersey	\$ 266	1 New Jersey	\$ 249	1 New Jersey	\$ 240
2 Florida	229	2 Florida	210	2 Florida	205
3 Massachusetts	160	3 Massachusetts	157	3 Massachusetts	153
4 California	148	4 California	137	4 California	68
5 South Dakota	85	5 South Dakota	75	5 South Dakota	51
National Average:	37	National Average:	33	National Average:	22

Source: Environmental Protection Agency, National Information Management System

* All amounts in table are cumulative from July 1, 1987

Independent Audit

The Trust's independent auditors, KPMG LLP, have performed an independent audit of the Trust for the fiscal year ended June 30, 2018. The independent auditors' report is located at the front of the Financial Section of this report.

The Trust prepares these financial statements and is responsible for the completeness and reliability of the information presented herein. To provide a reasonable basis for making these representations, the Trust has established an internal control framework that is designed to protect the Trust's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the Trust's financial statements in conformity with GAAP. The Trust's framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements.

Awards and Acknowledgements

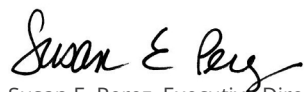
The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Trust for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. The award is the Trust's twenty-first consecutive citation. In order to be awarded a Certificate of Achievement, the Trust must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another citation.

The Massachusetts Clean Water Trust is a collaborative effort of the Massachusetts State Treasury, the Department of Environmental Protection, the Executive Office for Administration and Finance, and the U. S. Environmental Protection Agency. Without the hard work and strong support of the people in each of these agencies, the work of the Trust could not be accomplished. To them, we extend our deepest gratitude.

The preparation of this report would not have been possible without the hard work of the entire staff of the Massachusetts Clean Water Trust. We must also acknowledge the Chair and the Board of Trustees for the confidence they have put in us, the Governor and the Legislature, and the people of the Commonwealth of Massachusetts for their continued support.

Respectfully Submitted,



Susan E. Perez, Executive Director
Massachusetts Clean Water Trust
www.Mass.gov

GOVERNANCE & ADMINISTRATION

Introductory Section • Comprehensive Annual Financial Report

BOARD OF TRUSTEES

MICHAEL HEFFERNAN	DEBORAH B. GOLDBERG, CHAIR	MARTIN SUUBERG
Secretary of the Executive Office for Administration and Finance	State Treasurer and Receiver-General	Commissioner of the Department of Environmental Protection

EXECUTIVE COMMITTEE

MAYA JONAS-SILVER	SUSAN E. PEREZ	STEVEN J. McCURDY
Director of Finance and Administration	Executive Director	Director of Program Development

TRUST STAFF

DEPUTY DIRECTOR	CONTROLLER
Trust Treasurer Treasury Specialist Policy Analyst Program Associate Program Coordinator	General Ledger Accountant Staff Accountant

MASSACHUSETTS CLEAN WATER TRUST

BOARD OF TRUSTEES	SENIOR MANAGEMENT
Deborah B. Goldberg, Chair Treasurer and Receiver- General of the Commonwealth of Massachusetts	Susan E. Perez Executive Director
James A. MacDonald Designee of the Treasurer and Receiver-General	Nathaniel Keenan Deputy Director
Michael Heffernan Secretary of the Executive Office for Administration and Finance of the Commonwealth of Massachusetts	Maya Jonas-Silver Director of Capital Planning and Long-Term Obligations
Maya Jonas-Silver Designee of the Secretary of the Executive Office for Administration and Finance	Steven J. McCurdy Director of MassDEP Municipal Services
Martin J. Suuberg Commissioner of the Department of Environmental Protection of the Commonwealth of Massachusetts	
Steven J. McCurdy Designee of the Commissioner of the Department of Environmental Protection	



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**Massachusetts Water Pollution
Abatement Trust**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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MASSACHUSETTS
CLEAN WATER TRUST

A Component Unit of the Commonwealth of Massachusetts

FINANCIAL SECTION

As of and for the years ended June 30, 2018 and June 30, 2017



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Massachusetts Clean Water Trust:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Massachusetts Clean Water Trust (the Trust), a component unit of the Commonwealth of Massachusetts, which comprise the statements of net position as of and for the years ended June 30, 2018 and 2017, and the statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Clean Water Trust as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 audit 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Trust's basic financial statements. The Introductory, Combining Financial Statements and Schedules and the Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements and Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements and Schedules, as listed in the table of contents, are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Boston, Massachusetts
October 12, 2018

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2018 and 2017

Introduction

The Massachusetts Clean Water Trust (the Trust) is a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth). It was established in 1989 to administer the Massachusetts Water Pollution Abatement Revolving Fund pursuant to Title VI of the Federal Clean Water Act establishing the Clean Water State Revolving Fund (Clean Water SRF). Its enabling statute, Chapter 29C of the Massachusetts General Laws, was amended in 1998 to provide that the Trust would also administer the provisions of Title XIV of the Federal Safe Drinking Water Act, establishing the Drinking Water State Revolving Fund (Drinking Water SRF).

The Trust's Clean Water SRF and the Drinking Water SRF programs were established to accept federal grants and required Commonwealth matching funds in an amount equal to approximately 20% of the federal grants. The Trust's SRF programs utilize a "leveraged" financing model, under which federal grants and state matching grants, together with other monies available to the Trust are pledged as security for revenue bonds issued by the Trust. The proceeds of the bonds and other funds of the Trust are used to fund loans to local governmental units and other eligible borrowers for eligible project costs. In addition to loan repayments, earnings on these pledged assets are used to pay a portion of debt service on the related bonds, thereby reducing the borrowers' loan repayment obligation. As the bonds are paid, the pledged assets "revolve" and become available for new projects.

Since 2002, the Trust has provided loans to communities at a 2% interest rate; however, certain projects may receive a rate below 2% for specific programs approved by the Board of Trustees or directed by the legislature, such as those that address nutrient reduction. As the effective market interest rate on the Trust's bonds is higher than the 2% loan rate, the borrowers receive a subsidy equal to the difference between those rates. The Clean Water SRF and Drinking Water SRF programs are administered by the Trust in partnership with the Massachusetts Department of Environmental Protection (DEP). DEP manages project development and approval while the Trust manages the flow of funds to the communities. Subsidized financing has been an important incentive for many communities to undertake water and sewer infrastructure improvement projects. Since the enactment of Chapter 95 of the Acts of 1995 of the Commonwealth, the Trust has been the Commonwealth's primary program to finance such improvements.

The Clean Water SRF provides low cost financing to eligible borrowers for projects that reduce, eliminate, or prevent water pollution. Examples of Clean Water SRF projects include construction of new wastewater treatment facilities, upgrades to existing facilities, infiltration/inflow correction, wastewater collection systems, and nonpoint source pollution abatement projects such as landfill capping, community programs for upgrading septic systems (Title 5), brownfield remediation, pollution prevention, and storm water remediation.

The Drinking Water SRF provides low cost financing to publicly and privately-owned water systems for projects that provide safe, affordable drinking water. Examples of Drinking Water SRF projects include new and upgraded drinking water treatment facilities; replacement of contaminated sources, new water treatment or storage facilities; consolidation or restructuring of water systems; projects and system activities that provide treatment, or effective alternatives to treatment for compliance with regulated health standards such as the Surface Water Treatment Rule; and installation or replacement of transmission or distribution systems.

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(Unaudited)
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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.

The Trust's financial statements are prepared in conformity with U.S. generally accepted accounting principles 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.

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.

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Condensed Financial Information and Financial Analysis

Massachusetts Clean Water Trust's Net Position
(In thousands)

	June 30			Percentage change	
	2018	2017	2016	2018–2017	2017–2016
Cash and cash equivalents	\$ 478,627	586,633	486,629	(18.4)%	20.6 %
Investments	838,269	916,697	1,014,715	(8.6)	(9.7)
Project fund deposits	26,704	66,573	50,243	(59.9)	32.5
Grants receivable, EPA	40,536	28,814	49,667	40.7	(42.0)
Loans receivable	3,990,591	4,105,419	4,049,067	(2.8)	1.4
Accrued interest receivable and other assets	52,323	56,135	57,774	(6.8)	(2.8)
Total assets	5,427,050	5,760,271	5,708,095	(5.8)	0.9
Deferred outflows	68,556	88,654	100,910	(22.7)	(12.1)
Total assets and deferred outflows	5,495,606	5,848,925	5,809,005	(6.0)	0.7
Accrued expenses and interest payable	53,549	58,268	60,307	(8.1)	(3.4)
Unearned revenue	25,982	27,270	28,086	(4.7)	(2.9)
Loan commitments and project funds payable	26,739	67,023	49,363	(60.1)	35.8
Liability for derivative instruments	1,841	3,604	6,461	(48.9)	(44.2)
Long-term debt	2,932,678	3,316,209	3,328,202	(11.6)	(0.4)
Total liabilities	3,040,789	3,472,374	3,472,419	(12.4)	—
Deferred inflows	8,679	—	—	100.0	—
Total liabilities and deferred inflows	3,049,468	3,472,374	3,472,419	(12.2)	—
Net position:					
Restricted	1,964,713	1,906,475	1,838,451	3.1	3.7
Unrestricted	481,425	470,076	498,135	2.4	(5.6)
Total net position	\$ 2,446,138	2,376,551	2,336,586	2.9 %	1.7 %

The Trust's net position at June 30, 2018 and 2017 increased \$69.6 million, or 2.9%, to \$2.45 billion from \$2.38 billion, respectively, as total liabilities decreased \$422.9 million while total assets and deferred outflows decreased \$353.3 million. Total assets and deferred outflows decreased \$353.3 million to \$5.50 billion at June 30, 2018 from \$5.85 billion at June 30, 2017. This decrease was primarily due to \$108.0 million decrease in cash and cash equivalents, a \$114.8 million decrease in loans receivable, a \$78.4 million decrease in investments and a \$39.9 million decrease in project fund deposits. Loans receivable and project fund deposits decreased as borrower payments and disbursements of project funds were made during the fiscal year.

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Typically, there is a new bond issuance during the fiscal year which would provide an offset of new financed loans and project funds; however, the annual bond issuance occurred in September 2018. The Trust used \$122.7 million of its cash to defease its State Revolving Fund Refunding Bonds, Series 2009A and 2010A. The Trust's debt service reserve fund investments continue to decrease as scheduled maturities of investments revolve back into program equity (cash and cash equivalent). Total liabilities decreased \$422.9 million due to scheduled debt service payments and the previously mentioned defeasance of debt.

The Trust's net position at June 30, 2017 and 2016 was \$2.38 billion and \$2.34 billion, respectively. Total assets and deferred outflows increased less than 1%, or \$39.9 million to \$5.85 billion at June 30, 2017, as \$98.0 million of scheduled maturities of investments in the debt service reserve funds revolved back into program equity (cash and cash equivalent). Loan receivable increased \$56.4 million which reflects the change in assets that are pledged to the Trust's bonds away from debt service reserve funds to pledging direct loans.

Long-term Debt/Bonds Payable

The Trust issues revenue bonds (SRF Bonds) in order to fund communities' construction projects under the Clean Water and Drinking Water programs. The SRF Bonds are secured by Trust's assets that are pledged as a source of payment and security. Trust's pledged assets consist of either reserve funds or loans to borrowers, or a combination thereof, both of which are funded by the SRF program funds. The balance of the Trust's pledged assets as of June 30, 2018 is \$423.9 million in reserve funds and \$448.8 million in loans to borrowers. The SRF Bonds are payable from borrower loan repayments, reserve fund earnings and payments made by the Commonwealth to the Trust on behalf of the borrowers.

The Trust issues its bonds under and secured by the Master Trust Agreement (MTA) dated as of January 1, 2015. The Trust entered into the MTA to replace the Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. The Series 18 Bonds were the initial series of MTA Bonds and the Trust expects to continue to conduct its SRF program through the Master Trust Agreement. The Trust's prior bonds were issued pursuant to the Program Resolution 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. The City of New Bedford, MWRA and SEDS also are borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

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The following is a summary of bonds payable at June 30, 2018, 2017 and 2016 (in thousands). More detailed information can be found in note 8 to the financial statements.

	Summary of Bonds Payable at June 30,		
	2018	2017	2016
Water Pollution Abatement Revenue Bonds:			
Master Trust Agreement	\$ 597,670	620,750	428,720
Pool Loan Program	836,630	892,585	1,037,980
Single Obligor Bonds:			
MWRA Loan Program	7,280	8,170	9,100
South Essex Sewage District Loan Program	—	—	285
Subtotal revenue bonds	<u>1,441,580</u>	<u>1,521,505</u>	<u>1,476,085</u>
Subordinated Revenue Refunding Bonds:			
Master Trust Agreement	96,280	96,280	—
Pool Loan Program	1,044,890	1,296,575	1,462,805
Single Obligor Bonds:			
MWRA Loan Program	<u>36,595</u>	<u>54,040</u>	<u>54,040</u>
Subtotal revenue refunding bonds	<u>1,177,765</u>	<u>1,446,895</u>	<u>1,516,845</u>
Total bonds	2,619,345	2,968,400	2,992,930
Add unamortized bond premium	<u>313,333</u>	<u>347,809</u>	<u>335,272</u>
Total bonds payable, net	<u>\$ 2,932,678</u>	<u>3,316,209</u>	<u>3,328,202</u>

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

	2018	2017	2016	2018–2017	2017–2016
Loan servicing fees	\$ 5,615	5,608	5,515	0.1 %	1.7 %
Loan origination fees	—	1,821	1,926	(100.0)	(5.5)
Interest income	108,028	90,573	133,905	19.3	(32.4)
Contract assistance	26,003	26,572	28,927	(2.1)	(8.1)
Total operating revenues	139,646	124,574	170,273	12.1	(26.8)
DEP programmatic support costs	7,583	8,545	8,421	(11.3)	1.5
Principal forgiveness	7,372	5,672	6,117	30.0	(7.3)
General and administrative	2,331	5,210	4,092	(55.3)	27.3
Arbitrage rebate payments	—	12,328	3,785	(100.0)	225.7
Interest expense	125,293	126,551	127,247	(1.0)	(0.5)
Total operating expenses	142,579	158,306	149,662	(9.9)	5.8
Operating income (loss)	(2,933)	(33,732)	20,611	(91.3)	(263.7)
EPA capitalization grants	60,453	61,534	63,781	(1.8)	(3.5)
State matching grants	12,067	12,163	12,738	(0.8)	(4.5)
Total nonoperating revenues	72,520	73,697	76,519	(1.6)	(3.7)
Increase in net position	69,587	39,965	97,130	74.1	(58.9)
Net position, beginning of year	2,376,551	2,336,586	2,239,456	1.7	4.3
Net position, end of year	\$ 2,446,138	2,376,551	2,336,586	2.9 %	1.7 %

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

Summary of Interest Income					
(In thousands)					
	June 30			Percentage change	
	2018	2017	2016	2018-2017	2017-2016
Loan interest income	\$ 68,349	67,596	69,102	1.1 %	(2.2)%
Investment income	42,215	40,770	40,234	3.5	1.3
BAB subsidy income	4,286	4,144	4,266	3.4	(2.9)
Change in fair market value	(6,822)	(11,937)	20,303	42.8	(158.8)
Refunding savings paid to the Commonwealth	—	(10,000)	—	(100.0)	100.0
Total interest income	<u>\$ 108,028</u>	<u>90,573</u>	<u>133,905</u>	<u>19.3 %</u>	<u>(32.4) %</u>

Results of Operations

For fiscal year 2018, the Trust recorded operating loss of \$2.9 million as compared to an operating loss of \$33.7 million in fiscal year 2017. Excluding the change in fair market value of investments fiscal year 2018 recorded operating income of \$3.9 million and fiscal year 2017 recorded an operating loss of \$21.8 million. Fiscal year 2017 operating loss included two items that negatively impacted results that did not recur in fiscal year 2018. These items were a \$10.0 million payment of refunding savings to the Commonwealth and \$12.3 million in arbitrage rebate payments to the United States Treasury. Without these two items and excluding the change in fair market value of investments, fiscal year 2017 would have recorded \$0.5 million in operating income. General and administrative expenses for fiscal year 2017 included \$1.6 million in costs of issuance related to the Series 20 and 2017 Refunding bond issuances and \$1.3 million of funding for a testing for lead in public schools' program.

For fiscal year 2017, the Trust recorded operating loss of \$33.7 million as compared to operating income of \$20.6 million in fiscal year 2016. Excluding the change in fair market value of investments fiscal year 2017 recorded an operating loss of \$21.8 million and fiscal year 2016 recorded operating income of \$0.3 million. Fiscal year 2017 operating loss included two items that negatively impacted results that did not occur in fiscal year 2016. These items were a \$10.0 million payment of refunding savings to the Commonwealth and \$12.3 million in arbitrage rebate payments to the United States Treasury. Without these two items and excluding the change in fair market value of investments, fiscal year 2017 would have recorded \$0.5 million in operating income.

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The Trust's operating income is negatively impacted by the inclusion of expenses such as DEP programmatic support costs of \$7.6 million, \$8.5 million, and \$8.4 million for fiscal years 2018, 2017 and 2016, respectively, and principal forgiveness, which are funded by the capitalization grant revenue that is classified as nonoperating revenue.

For fiscal year 2018, the Trust's nonoperating revenue of \$72.5 million decreased slightly from \$73.7 million the year before reflecting slight decreases in the annual clean water and drinking water federal capitalization grants revenue and the related state matching grant. Revenue is recognized based on the funding availability schedule contained in the grant. For more information on grant revenue, refer to note 6.

Future Economic Factors

In August 2018, the Commonwealth enacted the *An Act Promoting Climate Change Adaptation, Environmental and Natural Resource Protection, and Investment in Recreational Assets and Opportunity*, which provided for \$60.3 million in matching capitalization funds to the Clean Water SRF and Drinking Water SRF programs. This amount combined with the \$17.9 million balance remaining as of June 30, 2018, the Trust estimates will be sufficient to meet its clean water and drinking water matching needs through FY 2022, assuming current federal funding levels are maintained.

Requests for Information

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

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

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Assets and deferred outflows:		
Current assets:		
Cash and cash equivalents (note 3)	\$ 478,627	586,633
Short-term investments (note 5)	223,467	221,170
Project fund deposits (note 4)	26,704	66,573
Grants receivable:		
U.S. Environmental Protection Agency (note 6)	40,536	28,814
Loans receivable, net (note 7)	561,902	389,912
Accrued interest receivable	52,323	54,312
Total current assets	<u>1,383,559</u>	<u>1,347,414</u>
Noncurrent assets:		
Loans receivable, long term (note 7)	3,428,689	3,715,507
Long-term investments (note 5)	614,802	695,527
Other assets	—	1,823
Total noncurrent assets	<u>4,043,491</u>	<u>4,412,857</u>
Total assets	<u>5,427,050</u>	<u>5,760,271</u>
Deferred outflows of resources (notes 8 and 12)	<u>68,556</u>	<u>88,654</u>
Total assets and deferred outflows of resources	<u>5,495,606</u>	<u>5,848,925</u>
Liabilities:		
Current liabilities:		
Accrued expenses and interest payable	53,549	58,268
Unearned revenue	25,982	27,270
Loan commitments and project funds payable	26,739	67,023
Long-term debt (note 8)	230,280	231,485
Total current liabilities	<u>336,550</u>	<u>384,046</u>
Noncurrent liabilities:		
Liability for derivative instruments (note 11)	1,841	3,604
Long-term debt, net (note 8)	2,702,398	3,084,724
Total noncurrent liabilities	<u>2,704,239</u>	<u>3,088,328</u>
Total liabilities	<u>3,040,789</u>	<u>3,472,374</u>
Deferred inflows of resources (note 2)	<u>8,679</u>	<u>—</u>
Total liabilities and deferred inflows of resources	<u>3,049,468</u>	<u>3,472,374</u>
Net position:		
Restricted for program purposes (note 9)	1,964,713	1,906,475
Unrestricted (note 9)	481,425	470,076
Commitments (note 10)	—	—
Total net position	<u>\$ 2,446,138</u>	<u>2,376,551</u>

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, 2018 and 2017
(In thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Loan servicing fees	\$ 5,615	5,608
Loan origination fees	—	1,821
Interest income	108,028	90,573
Contract assistance from Commonwealth of Massachusetts	26,003	26,572
Total operating revenues	<u>139,646</u>	<u>124,574</u>
Operating expenses:		
Commonwealth of Massachusetts:		
Department of Environmental Protection – programmatic support costs	7,583	8,545
Principal forgiveness	7,372	5,672
General and administrative	2,331	5,210
Arbitrage rebate payments	—	12,328
Interest expense	125,293	126,551
Total operating expenses	<u>142,579</u>	<u>158,306</u>
Operating income	<u>(2,933)</u>	<u>(33,732)</u>
Nonoperating revenue:		
Capitalization grant revenue:		
U.S. Environmental Protection Agency capitalization grants (note 6)	60,453	61,534
Commonwealth of Massachusetts matching grants (note 6)	12,067	12,163
Total nonoperating revenue	<u>72,520</u>	<u>73,697</u>
Increase in net position	69,587	39,965
Net position – beginning of year	<u>2,376,551</u>	<u>2,336,586</u>
Net position – end of year	<u>\$ 2,446,138</u>	<u>2,376,551</u>

See accompanying notes to financial statements.

MASSACHUSETTS CLEAN WATER TRUST
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Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Other cash received from borrowers	\$ 7,436	7,494
Cash paid to vendors	<u>(10,067)</u>	<u>(25,953)</u>
Net cash used in operating activities	<u>(2,631)</u>	<u>(18,459)</u>
Cash flows from noncapital financing activities:		
Bond proceeds	—	354,577
Cash used in debt refunding	(122,736)	(115,810)
Repayment of bonds	(231,485)	(225,895)
Interest paid	(137,460)	(140,716)
Proceeds from U.S. Environmental Protection Agency capitalization grants	48,611	81,666
Proceeds from Commonwealth matching capitalization grants	<u>10,899</u>	<u>12,067</u>
Net cash used in noncapital financing activities	<u>(432,171)</u>	<u>(34,111)</u>
Cash flows from investing activities:		
Loans disbursed to recipients	(168,918)	(329,883)
Cash received from borrowers	252,632	239,871
Contract assistance received – principal	20,385	24,543
Interest received	122,925	103,761
Contract assistance received – interest	26,388	26,636
Purchases of investments	(4,864)	(6,976)
Sales/maturities of investments, net	<u>78,248</u>	<u>94,622</u>
Net cash provided by investing activities	<u>326,796</u>	<u>152,574</u>
Net increase in cash and cash equivalents	(108,006)	100,004
Cash and cash equivalents, beginning of year	<u>586,633</u>	<u>486,629</u>
Cash and cash equivalents, end of year	<u>\$ 478,627</u>	<u>586,633</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ (2,933)	(33,732)
Adjustments to reconcile operating income to net cash used in operating activities:		
Reclassification of:		
Interest income	(108,028)	(90,573)
Contract assistance	(26,003)	(26,572)
Interest expense	125,293	126,551
Principal forgiveness	7,372	5,672
Changes in operating assets and liabilities:		
Other assets and liabilities, net	<u>1,668</u>	<u>195</u>
Net cash used in operating activities	<u>\$ (2,631)</u>	<u>(18,459)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless noted)

(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 Agreement between the United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (DEP), and the Trust, executed in 1993 and subsequently amended, the Trust administers the Commonwealth's Clean Water State Revolving Fund (Clean Water SRF) and Drinking Water State Revolving Fund (Drinking Water SRF) programs.

Financial and management activities of the Trust are administered by employees of the Trust who fall under the Office of the State Treasurer. Project evaluation, selection, and oversight are provided by DEP employees.

The Trust is governed by a three-member board of trustees chaired by the State Treasurer and composed of the Secretary for Administration and Finance and the Commissioner of DEP.

(b) Description of Business

The SRF programs, which were authorized by federal legislation – the Water Quality Act of 1987 for the Clean Water SRF and the Safe Drinking Water Act of 1996 for the Drinking Water SRF to provide low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. The Trust's SRF program's primary activities include providing low-cost interim financing for its borrowers, the investment of program funds, the management and coordination of the programs, and the issuance of debt in the capital markets.

SRF program capitalization grants are issued from the EPA to the Trust, for which the Commonwealth is required to provide 20% in matching funds. The Trust pledges such grants, state matching funds and other monies available to the Trust to secure its bonds which are issued to fund such water infrastructure projects. The Trust applies investment earnings on such pledged assets to pay a portion of the debt service on the related bonds thereby reducing financing costs to the communities.

The SRF programs are called the State Revolving Fund programs because as borrowers pay down the principal balances of their loans and as the Trust pays principal on its SRF bonds, proportional amounts are released from the pledged assets securing the related SRF bonds. These funds come back to the Trust and "revolve" or are available to be pledged as a source of payment and security, for new SRF bonds or for other eligible purposes.

Funds pertaining to the SRF programs are limited to specific uses by laws and regulations as well as grant and operating agreements entered into between EPA and the Commonwealth. As a result of these limitations on uses, these funds are classified as restricted on the statements of net position.

MASSACHUSETTS CLEAN WATER TRUST
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Notes to Financial Statements

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(Dollars in thousands, unless noted)

(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.

(b) Revenue Recognition

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

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.

The Trust's recent federal capitalization grants require a portion of the grant funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans. The Trust provides the additional subsidization in the form of principal forgiveness, which has been recorded as an operating expense.

(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, repurchase agreements, and other permitted investments such as qualified municipal obligations.

In 2016 the Trust implemented GASB 72, *Fair Value Measurement and Application*. Investments are generally carried at fair value. The investment in MMDT is valued at the share value of \$1.00 and carried at fair value. The guaranteed investment contracts (GICs) are considered nonparticipating investment contracts and therefore are recorded at contract value.

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(e) Allowance for Uncollectible Amounts and Principal Forgiveness

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

Loans are reported net of principal forgiveness expected to be provided upon project completion. The amount of principal forgiveness is determined by the Trust's board and is recorded on a first-in, first-out basis as disbursements are processed, up to the total amount of the principal forgiveness awarded to the individual loans.

(f) Loan Origination Fees and Costs of Issuance

The Trust requires payment of loan origination fees at the time of the first debt service payment. This origination fee revenue is recorded at the time of the bond closing which is when these fees are earned. Cost of issuance related to the bonds is 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 State Treasurer's Office, DEP, 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 Premium

Bond premium, included in long-term debt, is amortized on a straight-line basis, which approximates the effective interest basis, over the life of the associated bond issue.

(i) 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 and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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(j) Derivatives

Derivative instruments are reported as assets or liabilities at fair value on the statement of net position. Changes in fair value are either deferred or reported in the statement of revenues, expenses, and changes in net position, depending on whether the derivative instrument qualifies for hedge accounting.

(k) 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 fiscal year 2018, the Trust has reported deferred inflows of resources that represent the funds received from the Commonwealth in the amount of \$8.6 million that will be used to provide future additional subsidies. For fiscal years 2018 and 2017, the Trust has reported deferred outflows of resources pertaining to its hedging derivative instruments and to the net losses on its debt refunding transactions.

(l) Reclassifications

Certain reclassifications have been made to the FY 2017 balances to conform to the presentation used in FY 2018.

(3) Cash and Cash Equivalents

Cash and cash equivalent for the years ended June 30, 2018 and 2017 are as follows:

Cash and Cash Equivalents as of June 30,		
	2018	2017
Program Equity Funds	360,789	496,763
Revenue Funds	29,014	34,378
Administrative Funds	28,542	22,946
State Match Funds	11,594	12,664
Rebate Funds	10,602	9,073
Other Cash Funds	38,086	10,809
Total Cash and Cash Equivalents	\$ 478,627	586,633

The Trust's cash and cash equivalents primarily consist of the SRF program equity funds. Use of these funds are governed by the Clean Water Act and Safe Drinking Water Act and are required to be kept in perpetuity in support of the State Revolving Fund. These funds are derived from: (1) funds drawn by the Trust from federal capitalization grants and Commonwealth matching funds; (2) other amounts paid to the Trust representing financial assistance provided pursuant to the Act for purposes of deposit in the SRF programs; (3) other amounts appropriated to the Trust by the Commonwealth for purposes of the SRF programs; (4) borrower loan repayments; (5) interest earnings on investments or deposits of amounts held in the program equity accounts; (6) proportional amounts released from the pledged assets available as a

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result of loan repayments in accordance with the provisions specified in the applicable bond resolutions; and (7) other amounts derived from financing activities of the Trust.

Revenue fund balances primarily represent proceeds collected from the Trust's specific revenue sources: borrower repayments, pledged assets earnings and contract assistance that are restricted or committed for specific purposes including debt service. Administrative funds are primarily funded with the annual loan servicing fee equal to 0.15% of outstanding loan principal charged pursuant to financing agreements, all origination fees payable to any loan, and any other amount received by the Trust for such purposes and applied to the payment of reimbursement of administrative costs of the Trust. Rebate funds represent amounts set aside to pay arbitrage rebate liabilities to the United States Treasury when due. State match funds represents the net balance of the Commonwealth matching grant and related interest earnings. Other cash accounts at June 30, 2018 primarily consist of additional assistance funds set aside by the Commonwealth to provide future subsidies the amount and timing of which to be determined by the Board. During fiscal year 2018, the Board of Trustees approved an additional subsidy pursuant to Chapter 259 of the Acts of 2014 in the amount of \$10.6 million. This subsidy was funded in part by the Commonwealth with a deferred inflow of resources of \$8.7 million pursuant to the Amended Contract Assistance Agreement between the Trust and the Commonwealth.

Cash and cash equivalents include investments in Massachusetts Municipal Depository Trust (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 fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management Section of the Office of the State Treasurer's Web site at www.mass.gov/treasury. For purposes of risk categorization, MMDT shares are not categorized.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. The Trust had no significant amount of cash on deposit with banks at June 30, 2018 and 2017.

(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 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 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 principal. Project fund deposits are invested as part of the MMDT Cash Portfolio. As of June 30, 2018, and 2017, the

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Trust had \$26,704 and \$66,573, respectively, held in project fund deposits related to executed loan agreements for State Revolving Fund Bonds.

(5) Investments

Investments for the years ended June 30, 2018 and 2017 are as follows:

June 30, 2018				
	Guaranteed investment contracts	U.S. Treasuries and agencies	MMDT short-term bond portfolio	Total investments
Less than 1 year	\$ 113,313	14,047	96,107	223,467
One to five years	196,572	74,635	—	271,207
Six to ten years	120,919	66,589	—	187,508
More than ten years	46,298	109,789	—	156,087
	<u>\$ 477,102</u>	<u>265,060</u>	<u>96,107</u>	<u>838,269</u>
June 30, 2017				
	Guaranteed investment contracts	U.S. Treasuries and agencies	MMDT short-term bond portfolio	Total investments
Less than 1 year	\$ 112,538	14,301	94,331	221,170
One to five years	211,582	77,942	—	289,524
Six to ten years	156,044	68,886	—	224,930
More than ten years	56,285	124,788	—	181,073
	<u>\$ 536,449</u>	<u>285,917</u>	<u>94,331</u>	<u>916,697</u>

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

Since 2012, the Trust has been pledging direct loans as security for its bonds rather than establishing debt service reserve funds. As a result, the debt service reserve fund investment balance continues to decline as scheduled maturities occur.

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

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

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

Fair Value Disclosure – Investments – The Trust categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. GASB defines a certain hierarchy of inputs to valuation techniques used to measure fair value. All of 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 MMDT is valued at the share value of \$1.00 and carried at fair value. The Short Term Bond Portfolio investments are 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 the Statement on fair value measurement. These investment values will continue to be measured in accordance with existing accounting standards and are recorded at contract value.

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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 following list sets forth the guaranteed investment contract providers with which the Trust's investments exceed 5% of the Trust's total investment balance.

<u>Provider</u>	<u>2018</u>		<u>2017</u>	
Dexia Credit Local/FSA Capital Management Services, LLC	\$	138,593 19 %	\$	159,954 20 %
Mass Mutual Financial Group / Trinity Funding Company, LLC*		123,061 17		135,089 17
Natixis Funding Corp. f/k/a Ixis Funding Corp., CDC Funding Corp.		114,938 15		131,201 16
Citigroup Global Markets Inc.		76,731 10		84,130 10

* Trinity sold to MassMutual its interests in certain investment agreements

(6) Capitalization Grants

The Trust is awarded clean water and drinking water grants from the EPA. These grants require that the Trust enter into binding commitments with local government units within one year of the receipt of each federal grant award to provide assistance in an amount equal to 120% (including 20% state matching grants) of each grant award. Each federal capitalization grant contains federally mandated set-asides, including a 4% administrative allowance, that result in total grant funding actually being 83.3% federal and 16.7% state.

The periodic grant draws by the Trust on its federal and state grants are based on the amount of incurred costs for certain eligible projects or activities. State matching grant revenue is recognized the year it is drawn from the Commonwealth. Federal grant revenue is recognized in accordance with the funding schedules contained within the individual grant agreements. The federal grant agreements begin October 1 and end September 30 in conformity with the federal fiscal year. Federal grant funds are made available in equal quarterly installments based on the federal fiscal year.

The following table depicts the Trust's grant receivable by program:

	<u>Clean Water Program</u>		<u>Drinking Water Program</u>		<u>Total Program</u>	
	<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>
Grants receivable at June 30, 2017	\$ 27,092	—	1,722	—	28,814	—
Project Grant Award/Match – FFY 2017	42,853	9,003	10,570	3,064	53,423	12,067
Admin/Set Asides Grant – FFY 2017	2,161	—	4,749	—	6,910	—
Total Grant Award/Match	45,014	9,003	15,319	3,064	60,333	12,067
Grant Funds Draw n	(33,326)	(9,003)	(15,285)	(3,064)	(48,611)	(12,067)
Grants receivable at June 30, 2018	\$ <u>38,780</u>	<u>—</u>	<u>1,756</u>	<u>—</u>	<u>40,536</u>	<u>—</u>

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	Clean Water Program		Drinking Water Program		Total Program	
	Federal	State	Federal	State	Federal	State
Grants receivable at June 30, 2016	\$ 47,360	—	2,307	—	49,667	—
Project Grant Award/Match – FFY 2016	43,186	9,073	10,661	3,090	53,847	12,163
Admin/Set Asides Grant – FFY 2016	2,177	—	4,790	—	6,967	—
Total Grant Award/Match	45,363	9,073	15,451	3,090	60,814	12,163
Grant Funds Draw n	(65,631)	(9,073)	(16,036)	(3,090)	(81,667)	(12,163)
Grants receivable at June 30, 2017	\$ 27,092	—	1,722	—	28,814	—

Federal capitalization revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements. The periodic cash draws by the Trust on the federal grants are based on the amount of incurred costs for certain eligible projects or activities.

The following table depicts the Trust's capitalization grant revenue by grant:

	Clean Water Program		Drinking Water Program		Total Programs	
	2018	2017	2018	2017	2018	2017
Federal FY 2017 grant	\$ 33,760	—	11,489	—	45,249	—
Federal FY 2016 grant	11,341	34,022	3,863	11,588	15,204	45,610
Federal FY 2015 grant	—	11,840	—	4,084	—	15,924
Total grant revenue – EPA	45,101	45,862	15,352	15,672	60,453	61,534
State match – FY 2017 grant	9,003	—	3,064	—	12,067	—
State match – FY 2016 grant	—	9,073	—	3,090	—	12,163
Total grant revenue – State Match	\$ 9,003	9,073	3,064	3,090	12,067	12,163

(7) Loans Receivable and Bonds Purchased

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

Each loan to a borrower is in the form of either a loan or a bond purchase agreement and is pursuant to a financing agreement between the Trust and the borrower. Pursuant to an agreement made with the EPA, projects financed for greater than 20 years are financed through a bond purchase agreement. Pursuant to the financing agreements, each borrower delivers its own general or special obligation bond to the Trust referred to as a "local bond," in order to secure its loan repayment obligations. The Trust may provide loans under its Clean Water SRF and Drinking Water SRF programs with terms up to 30 years, but in no event

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does the Trust make a loan longer than the expected useful life of the project financed or refinanced by such loan. The Trust's loans to borrowers are funded either through SRF bond proceeds (leveraged loans), or funded with SRF program equity funds (direct loans).

The Trust recognizes the need for construction funds to be available to borrowers 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. Interim loans are temporary loans provided by the Trust to local governmental units or other eligible borrowers in accordance with a financing agreement for all or any part of the cost of a project in anticipation of a leveraged or direct loan.

A summary of loan receivables as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Leveraged loans	\$ 3,251,964	3,510,721
Direct loans pledged for bond debt service	448,814	470,330
Other direct loans	<u>7,774</u>	<u>8,401</u>
Total permanently financed loans receivable	3,708,552	3,989,452
Interim loans	337,370	173,023
Principal forgiveness	<u>(55,331)</u>	<u>(57,056)</u>
Total loans receivable	3,990,591	4,105,419
Less current portion loans receivable	<u>561,902</u>	<u>389,912</u>
Long-term portion – loans receivable	<u>\$ 3,428,689</u>	<u>3,715,507</u>

The interim loan receivable balances were \$337,370 and \$173,023 as of June 30, 2018 and 2017, respectively. The significant increase in interim loan balances is attributed to the timing of bond issuance and related financing of loans. The Trust did not issue bonds in fiscal year 2018, rather it issued its Series 21 bonds in September 2018, when \$303.1 million of interim loans were permanently financed.

Additionally, the interim loan balances represent disbursements of construction funds of \$55,331 and \$57,056, respectively, to borrowers for which a subsidy was provided in the form of principal forgiveness. The subsidized interim loan amounts will be legally forgiven as the applicable projects are completed.

The Trust offers principal forgiveness to borrowers, based on eligibility criteria defined by the Trust's board. Principal forgiveness can assist borrowers in their efforts to comply with water quality standards by making projects even more affordable. Loans funded by principal forgiveness grants are advanced to local agencies on a cost reimbursement basis up to the amount of the awarded principal forgiveness. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

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Interim loans totaling \$233,448 were permanently financed as part of the Trust's Series 20 bond issuance in April 2017. In connection with the issuance of the Series 20 bonds, the Trust pledged \$92,682 of its program assets. The pledged assets were 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 Series 20 bonds, thereby supplementing the loan repayment obligations of the local borrowers while the principal payments collected on the direct loans are pledged as further security for the Trust's bonds. The Series 20 bonds are the fifth Series of Trust SRF Bonds to use this approach. As of June 30, 2018, the Trust has \$449 million in direct loans pledged for the purpose of paying debt service on Trust bonds.

Aggregate principal maturities on loans receivable or bonds purchased are as follows:

Years ending June 30:	Leveraged loans	Direct loans used for bond debt service	Other direct loans	Total permanently financed loans
2019	\$ 258,260	20,791	627	279,678
2020	253,248	21,223	628	275,099
2021	246,739	21,677	628	269,044
2022	233,286	22,074	629	255,989
2023	238,860	22,555	629	262,044
2024–2028	980,681	115,453	3,151	1,099,285
2029–2033	641,269	121,142	1,482	763,893
2034–2038	299,879	61,284	—	361,163
2039–2043	78,875	30,300	—	109,175
2044–2048	20,867	12,315	—	33,182
	<u>\$ 3,251,964</u>	<u>448,814</u>	<u>7,774</u>	<u>3,708,552</u>

The Trust's loans to its borrowers are subsidized by interest earnings on its pledged assets which include Debt Service Reserve Funds, direct loans and contract assistance provided to the Trust by the Commonwealth. Although borrowers are obligated to the Trust to make scheduled payments, these subsidies are expected to be available for the duration of the loan financing agreements. The Commonwealth has committed to provide contract assistance in the amount of \$253.9 million 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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(8) Bonds Payable

The Trust issues special obligation bonds under its SRF programs to provide low cost financing to cities, towns and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. Coupons on the bonds range from approximately 2.0% to 6.0% and each series is payable semiannually with the latest maturity occurring in FY 2047. The financial assistance is provided pursuant to leveraged loans and bond purchase agreements between the Trust and each borrower as described in note 7.

The Trust issues its bonds under and secured by the Master Trust Agreement (MTA) dated as of January 1, 2015. The Trust entered into the MTA to replace the Program Resolution and to create a simpler security framework for the Trust's SRF Bonds. The Series 18 Bonds were the initial series of MTA Bonds and the Trust expects to continue to conduct its SRF program through the Master Trust Agreement. The Trust's prior bonds were issued pursuant to the Program Resolution 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. The City of New Bedford, MWRA and SESD also are borrowers under the Trust's Pool Loan Program Bonds and the MTA Bonds.

The Series 20 Bonds and the Series 2017 Refunding Bonds, issued on April 13, 2017, were the third and fourth Series of the Trust's bonds to be issued under and secured by the Master Trust Agreement (MTA). MTA Bonds are payable solely from the funds pledged 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 local governmental units 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.

Pursuant to the Commonwealth Assistance Contract (the Contract), the Commonwealth has agreed to provide contract assistance payments to the Trust to reduce the payments by local government units. The Contract is pledged as security for the bonds; and contract assistance payments, when received by the Trust are pledged as security for the bonds.

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The following is a summary of bonds payable at June 30, 2018 and 2017:

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
Senior revenue bonds:								
Series 6	Pool Loan	11/6/2000	8/1/2023	\$ 3,165	—	—	3,165	—
Series 7	Pool Loan	7/15/2001	2/1/2023	1,530	—	—	1,530	245
Series 2002A	MWRA	10/15/2002	8/1/2032	8,170	—	890	7,280	850
Series 8	Pool Loan	11/15/2002	8/1/2026	8,730	—	1,450	7,280	1,255
Series 9	Pool Loan	10/10/2003	8/1/2027	13,950	—	1,535	12,415	3,620
Series 11	Pool Loan	10/19/2005	8/1/2025	41,725	—	235	41,490	12,425
Series 12	Pool Loan	12/14/2006	8/1/2026	22,830	—	—	22,830	—
Series 14	Pool Loan	3/18/2009	8/1/2038	146,495	—	17,080	129,415	17,565
Series 15	Pool Loan	7/8/2010	8/1/2040	329,905	—	18,215	311,690	18,900
Series 16 A & B	Pool Loan	6/13/2012	8/1/2042	152,260	—	9,760	142,500	10,070
Series 17 A & B	Pool Loan	7/22/2013	2/1/2043	171,995	—	7,680	164,315	7,975
Series 18	MTA	1/7/2015	2/1/2045	213,140	—	7,990	205,150	8,205
Series 19	MTA	2/11/2016	2/1/2046	200,260	—	8,050	192,210	8,320
Series 20	MTA	4/13/2017	2/1/2047	207,350	—	7,040	200,310	6,970
Subordinated revenue refunding bonds:								
MWRA 1999A	MWRA	11/3/1999	8/1/2029	54,040	—	17,445	36,595	16,750
Series 2004A	Pool Loan	8/25/2004	8/1/2027	210,120	—	48,800	161,320	41,430
Series 2006	Pool Loan	12/14/2006	8/1/2034	397,530	—	35,295	362,235	22,880
Series 2009A	Pool Loan	7/30/2009	8/1/2019	135,025	—	100,255	34,770	16,495
Series 2010A	Pool Loan	7/8/2010	2/1/2020	25,075	—	20,160	4,915	2,395
Series 2012A	Pool Loan	6/13/2012	8/1/2032	46,840	—	500	46,340	2,485
Series 2014	Pool Loan	6/12/2014	8/1/2028	481,985	—	46,675	435,310	31,445
Series 2017	MTA	4/13/2017	8/1/2029	96,280	—	—	96,280	—
Subtotal				2,968,400	—	349,055	2,619,345	230,280
Add unamortized bond premiums				347,809	—	34,476	313,333	—
Total bonds payable				<u>\$ 3,316,209</u>	<u>—</u>	<u>383,531</u>	<u>2,932,678</u>	<u>230,280</u>

On June 13, 2018, the Trust used \$122.7 million of its cash to defease its State Revolving Fund Refunding Bonds, Series 2009A and 2010A. On September 12, 2018, the Trust issued State Revolving Fund Bonds Series 21 (Green Bonds) in the amount of \$163.5 million with a premium of \$26.0 million. The Trust has designated the Series 21 bonds 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. Series 21 Bond proceeds were applied to fund \$119.3 million in loans for wastewater projects under the clean water SRF and \$70.2 million in loans for projects under the drinking water SRF. The Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 21 bonds, the Trust pledged \$85.7 million of direct loans for projects under the clean

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water SRF and \$27.9 million of direct loans for projects under the drinking water SRF. The interest payments on these pledged direct loans will be used to pay a portion of the debt service due on the Series 21 bonds.

The following is a summary of bonds payable at June 30, 2017 and 2016:

Bond issue	Program	Issue date	Final maturity	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Senior revenue bonds:								
Series 1996A	SESD	12/5/1996	8/1/2016	\$ 285	—	285	—	—
Series 6	Pool Loan	11/6/2000	8/1/2023	3,165	—	—	3,165	—
Series 7	Pool Loan	7/15/2001	2/1/2023	1,530	—	—	1,530	—
Series 2002A	MWRA	10/15/2002	8/1/2032	9,100	—	930	8,170	890
Series 8	Pool Loan	11/15/2002	8/1/2026	10,360	—	1,630	8,730	1,450
Series 9	Pool Loan	10/10/2003	8/1/2027	15,650	—	1,700	13,950	1,535
Series 11	Pool Loan	10/19/2005	8/1/2025	41,960	—	235	41,725	235
Series 12	Pool Loan	12/14/2006	8/1/2026	40,980	—	18,150	22,830	—
Series 14	Pool Loan	3/18/2009	8/1/2038	163,120	—	16,625	146,495	17,080
Series 15	Pool Loan	7/8/2010	8/1/2040	365,860	—	35,955	329,905	18,215
Series 16 A & B	Pool Loan	6/13/2012	8/1/2042	215,960	—	63,700	152,260	9,760
Series 17 A & B	Pool Loan	7/22/2013	2/1/2043	179,395	—	7,400	171,995	7,680
Series 18	MTA	1/7/2015	2/1/2045	220,915	—	7,775	213,140	7,990
Series 19	MTA	2/11/2016	2/1/2046	207,805	—	7,545	200,260	8,050
Series 20	MTA	4/13/2017	2/1/2047	—	207,350	—	207,350	7,040
Subordinate revenue refunding bonds:								
MWRA 1999A	MWRA	11/3/1999	8/1/2029	54,040	—	—	54,040	17,445
Series 2004A	Pool Loan	8/25/2004	8/1/2027	261,110	—	50,990	210,120	48,800
Series 2006	Pool Loan	12/14/2006	8/1/2034	408,215	—	10,685	397,530	35,295
Series 2009A	Pool Loan	7/30/2009	8/1/2029	148,330	—	13,305	135,025	560
Series 2010A	Pool Loan	7/8/2010	2/1/2026	27,255	—	2,180	25,075	2,285
Series 2012A	Pool Loan	6/13/2012	8/1/2032	93,020	—	46,180	46,840	500
Series 2014	Pool Loan	6/12/2014	8/1/2028	524,875	—	42,890	481,985	46,675
Series 2017	MTA	4/13/2017	8/1/2029	—	96,280	—	96,280	—
Subtotal				2,992,930	303,630	328,160	2,968,400	231,485
Add unamortized bond premiums				335,272	50,947	38,410	347,809	—
Total bonds payable				<u>\$ 3,328,202</u>	<u>354,577</u>	<u>366,570</u>	<u>3,316,209</u>	<u>231,485</u>

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On April 13, 2017, the Trust issued State Revolving Fund Bonds Series 20 (Green Bonds) in the amount of \$207.4 million with a premium of \$32.2 million. Series 20 Bond proceeds were applied to fund \$167.5 million in loans for wastewater projects under the clean water SRF and \$72.1 million in loans for projects under the drinking water SRF. The Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 20 bonds, the Trust pledged \$65.9 million of direct loans for projects under the clean water SRF and \$26.8 million of direct loans for projects under the drinking water SRF. The interest payments on these pledged direct loans will be used to pay a portion of the debt service due on the Series 20 bonds.

On April 13, 2017, the Trust issued State Revolving Fund Refunding Bonds, Series 2017 in the amount of \$96.3 million with a premium of \$18.8 million. The Series 2017 Refunding Bonds were issued, together with other funds of the Trust, to refund certain bonds previously issued by the Trust. The Trust used \$1.0 million of its program equity cash to refund optimal current refunding candidates from Series 15, 16 and the 2012 Refunding. These proceeds were deposited with an escrow agent to provide resources for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The total debt defeased through this new issue was \$102.3 million, for a cash flow savings of \$7.9 million, resulting in an economic gain (net present value) of \$6.7 million.

At June 30, 2018, debt service requirements to maturity for principal and interest are as follows:

	Total debt service	Principal	Interest
Year ending June 30:			
2019	\$ 353,854	230,280	123,574
2020	338,599	226,295	112,304
2021	305,279	203,835	101,444
2022	276,701	185,150	91,551
2023	276,613	194,450	82,163
2024–2028	1,066,858	780,365	286,493
2029–2033	625,600	491,280	134,320
2034–2038	257,311	210,565	46,746
2039–2043	89,965	76,350	13,615
2044–2048	22,876	20,775	2,101
Total debt service requirements	\$ <u>3,613,656</u>	<u>2,619,345</u>	<u>994,311</u>

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In the current year and in prior years, the Trust has deposited bond proceeds from refunding bonds with an escrow agent to provide resources for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the financial statements. The balances of bonds defeased “in substance” in the current year or prior years, and still outstanding as of June 30, 2018 are as follows:

Description	Redemption date	Final escrow payment date	Outstanding principal amount	
			2018	2017
MWRA Series 1998A	11/3/1999	8/1/2018	\$ 8,415	16,720
Pool 13	6/12/2014	8/1/2018	13,950	27,920
Pool 14	6/12/2014	8/1/2019	137,595	137,595
Pool 15	4/13/2017	8/1/2020	18,320	18,320
Pool 16	4/13/2017	8/1/2020	54,285	54,285
Series 2012 refunding	4/13/2017	8/1/2022	29,660	29,660
Series 2009A refunding	6/13/2018	8/1/2019	99,695	—
Series 2010A refunding	6/13/2018	2/1/2020	17,875	—

When the Trust refunds or advance refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the old debt. The resulting accounting gain or loss is then amortized generally over the life of the refunding bonds. The net unamortized excess of acquisition price and the net carrying value of the defeased bonds are recorded in deferred outflows of resources on the Statement of Net Position.

Excess of reacquisition price over net carrying value of defeased bonds (deferred outflows of resources – see note 12):

	2018	2017
Beginning balance	\$ 85,050	94,449
Additions	—	691
Reductions	(18,335)	(10,090)
Ending balance	\$ 66,715	85,050

(9) Net Position

As of June 30, 2018, and 2017, the Trust has a restricted net position in the amount of \$1,964,713 and \$1,906,475, respectively, and an unrestricted net position in the amount of \$481,425 and \$470,076, 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. The capitalization grants are restricted to provide financial assistance, but not grants, 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.

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June 30, 2018 and 2017

(Dollars in thousands, unless noted)

(10) Commitment

As of June 30, 2018, and 2017, the Trust has agreed to provide loans to various local government units amounting to approximately \$253,049 and \$135,585, respectively, excluding loan amounts already disbursed, which will be funded or collateralized with grant awards received by the Trust.

(11) Derivative Transactions

Interest Rate Swap Agreements – \$77,255 dated November 21, 2006.

Objective of the Interest Rate Swap – As a means to lower its borrowings costs, when compared with fixed-rate bonds at the time of their issuance in November 2006, the Trust entered into two interest rate swap agreements in connection with its Pool Program Refunding Bonds, Series 2006 bonds. The intention of the swaps was to hedge the Trust's exposure to interest rate risk by effectively changing the Trust's variable rate bonds maturing in 2022 and 2023 to a synthetic fixed rate of 3.88% and 3.90%, respectively. The Series 2006 carry an interest rate indexed to the Municipal Consumer Price Index (Muni-CPI).

Terms – Under the terms of these swaps, the Trust agrees to receive a variable rate, based on the Muni-CPI, equal to the amounts due on variable rate bonds issued by the Trust concurrently with the execution of the swap agreement. The Trust agrees to pay a fixed rate to the counterparty. Payments are made semiannually, due August 1 and February 1 of each year, on the same schedule as the fixed rate bonds issued in December 2006. The counterparty is JP Morgan Chase & Co. JP Morgan Chase Bank, N.A. The terms of each swap agreement are summarized below:

	2022	2023
	Termination	Termination
Trade date	November 21, 2006	November 21, 2006
Effective date	December 14, 2006	December 14, 2006
Termination date	August 1, 2022	August 1, 2023

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June 30, 2018 and 2017

(Dollars in thousands, unless noted)

	2022	2023
	Termination	Termination
Notional amount	\$ 30,650	46,605
Fair value at June 30, 2018	(651)	(1,190)
Fair value at June 30, 2017	(1,311)	(2,293)
Variable rate bond coupon payments	Muni-CPI* rate + 0.99%	Muni-CPI* rate + 0.99%
Variable rate payment from counterparty	Muni-CPI* rate + 0.99%	Muni-CPI* rate + 0.99%
Fixed-rate payment to counterparty	3.88 %	3.90 %
Synthetic fixed rate on bonds	3.88	3.90

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

Fair Value – The swaps had an aggregate negative fair value as of June 30, 2018 and 2017, which means on the August 1, 2018 debt service payment date the Trust will make a payment to the swap counterparty. At June 30, 2018 and 2017, the fair value of these swaps is reflected as a liability for derivative instruments and deferred outflows in the accompanying financial statements. GASB defines certain hierarchy of inputs to valuation techniques used to measure fair value. Derivative instruments are classified as Level 2 of the fair value hierarchy using the zero coupon method. This method calculates the future net settlement payments/receipts required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement of the swap.

Credit Risk – As of June 30, 2018 and 2017, the Trust is not exposed to credit risk because the swaps had a negative fair value. Prior to January 5, 2009, the swap counterparty was Bear Stearns Capital Markets, Inc. As of January 5, 2009, the counterparty is JP Morgan Chase & Co. JP Morgan Chase Bank, N.A. and is rated AA-/Aa1/AA-by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. To mitigate credit risk, the Trust has the right to terminate the swap upon a ratings downgrade by the counterparty's credit support provider below BBB-/Baa3 by S&P Global Ratings, and Moody's Investors Service, respectively.

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Termination Risk – The swap contract uses the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Trust may terminate upon a ratings downgrade by the counterparty, as described above. The Trust and the counterparty may terminate if either party fails to perform under the terms of the Contract. If at the time of termination, the swap has a negative fair value, the Trust would be liable to the counterparty for a payment equal to the swap's fair value. The source of funds for this payment is from "legally available funds." Legally available funds is defined as, "funds held in the Trust's Federal Clean Water State Revolving Fund or Drinking Water State Revolving Fund...only to the extent that Congress passes a law or EPA adopts a regulation or issues an opinion or other notice...making such amounts legally available to pay settlement amounts."

Swap Payments and Hedged Debt – In accordance with the swap agreement, the variable rate is calculated using the preceding 3 months' Muni-CPI rate with settlement payments made on the debt service payment dates of February 1 and August 1. As of June 30, 2018, the variable rate was calculated using the May 31, 2018 Muni-CPI rate. Assuming this rate remains the same, the debt service requirements of the variable rate debt and the net swap payments are presented in the table below. As the Muni-CPI rate varies, the variable rate payments on the bonds and the variable rate receipts from the swap are equal, the net debt service will remain fixed.

	Variable rate bonds¹		Net swap payments²	Total debt service
	Principal	Interest		
Fiscal year ending June 30:				
2019	\$ —	2,905	102	3,007
2020	—	2,905	102	3,007
2021	—	2,905	102	3,007
2022	—	2,905	102	3,007
2023	30,650	2,328	84	33,062
2024	46,605	876	33	47,514

¹ Calculated rate uses May 31, 2018 Muni-CPI rate to reflect debt service payment for August 1, 2018.

² A positive net swap payment requires a payment from the Trust to the counterparty.

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(Dollars in thousands, unless noted)

(12) Deferred Outflows of Resources

The following is a summary of deferred outflows of resources at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
Derivative instruments (note 11)	\$ 1,841	3,604
Excess of reacquisition price over net carrying value of defeased bonds (note 8)	<u>66,715</u>	<u>85,050</u>
	<u>\$ 68,556</u>	<u>88,654</u>

(13) Subsequent Events

On September 12, 2018, the Trust issued State Revolving Fund Bonds Series 21 (Green Bonds) in the amount of \$163.5 million with a premium of \$26.1 million. The Trust has designated the Series 21 bonds 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. Series 21 Bond proceeds were applied to fund \$119.3 million in loans for wastewater projects under the clean water SRF and \$70.2 million in loans for projects under the drinking water SRF. The Trust anticipates expending all the proceeds within three years. In connection with the issuance of the Series 21 bonds, the Trust pledged \$85.7 million of direct loans for projects under the clean water SRF and \$27.9 million of direct loans for projects under the drinking water SRF. The interest payments on these pledged direct loans will be used to pay a portion of the debt service due on the Series 21 bonds.

MASSACHUSETTS CLEAN WATER TRUST

Combining Financial Statements and Schedules

For the year ended June 30, 2018 (with comparative amounts as of June 30, 2017)

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Federally Capitalized State Revolving Fund

Used to account for amounts received and expended from the Federally Capitalized SRF, proposed by Title VI of the Clean Water Act, along with amounts received and expended from the 20% required state matching of federal funding.

Federally Capitalized Safe Drinking Water State Revolving Fund

Used to account for amounts received and expended from the Federally Capitalized SRF, proposed by the Safe Drinking Water Act of 1996, along with amounts received and expended from the required state matching of federal funding.

Commonwealth of Massachusetts Capitalized State Revolving Loan Fund

Used to account for amounts received and expended from the Commonwealth Capitalized Fund.

General Operations Fund

Used to account for amounts received and expended for the general and administrative costs not applicable to the other three funds.

The following schedules contain information to help the reader understand how the Trust's financial data is broken down by the funds listed above and to provide information about the borrowers of the Trust's lending programs. Schedules included are:

SUPPLEMENTAL SCHEDULES

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year

Massachusetts Clean Water Trust
Combining Schedule of Net Position
June 30, 2018 (With Comparative Amounts as of June 30, 2017)
(in thousands)

	Federally Capitalized State Revolving Fund Loan Program	Federally Capitalized Safe Drinking Water Revolving Fund Loan Program	Commonwealth of Massachusetts Capitalized State Revolving Fund Loan Program	Program for General Operations	Combined Totals 6/30/2018	6/30/2017
ASSETS AND DEFERRED OUTFLOWS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 306,224	\$ 105,690	\$ 38,171	\$ 28,542	\$ 478,627	\$ 586,633
Short - term investments	183,868	17,769	-	21,830	223,467	221,170
Project fund deposits	18,136	8,568	-	-	26,704	66,573
Grants receivable:						
U.S. Environmental Protection Agency	38,781	1,755	-	-	40,536	28,814
Loans receivable, net	427,167	134,681	-	54	561,902	389,912
Accrued interest receivable	41,709	10,611	3	-	52,323	54,312
Total current assets	1,015,885	279,074	38,174	50,426	1,383,559	1,347,414
NONCURRENT ASSETS:						
Loans receivable, long-term	2,598,798	829,451	-	440	3,428,689	3,715,507
Long-term investments	479,115	135,687	-	-	614,802	695,527
Other assets	-	-	-	-	-	1,823
Total noncurrent assets	3,077,913	965,138	-	440	4,043,491	4,412,857
Deferred outflows of resources from derivative instruments	52,798	15,758	-	-	68,556	88,654
TOTAL ASSETS AND DEFERRED OUTFLOWS	4,146,596	1,259,970	38,174	50,866	5,495,606	5,848,925
LIABILITIES						
CURRENT LIABILITIES:						
Accrued expenses and interest payable	39,498	13,972	-	79	53,549	58,268
Unearned revenue	22,152	3,830	-	-	25,982	27,270
Loan commitments and project funds payable	16,755	8,059	1,925	-	26,739	67,023
Long-term debt	165,873	64,407	-	-	230,280	231,485
Total current liabilities	244,278	90,268	1,925	79	336,550	384,046
NONCURRENT LIABILITIES						
Liability for derivative instruments	1,222	619	-	-	1,841	3,604
Long-term debt, net	1,996,049	706,349	-	-	2,702,398	3,084,724
Total noncurrent liabilities	1,997,271	706,968	-	-	2,704,239	3,088,328
Deferred inflows of resources	-	-	8,679	-	8,679	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	2,241,549	797,236	10,604	79	3,040,789	3,472,374
NET POSITION						
Restricted for program purposes	1,518,880	445,833	-	-	1,964,713	1,906,475
Unrestricted	386,167	16,901	27,570	50,787	481,425	470,076
TOTAL NET POSITION	\$ 1,905,047	\$ 462,734	\$ 27,570	\$ 50,787	\$ 2,446,138	\$ 2,376,551

See Independent Auditors' Report

Massachusetts Clean Water Trust
Combining Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2018 (With Comparative Amounts as of June 30, 2017)
(in thousands)

	Federally Capitalized State Revolving Fund Loan Program	Federally Capitalized Safe Drinking Water Revolving Fund Loan Program	Commonwealth of Massachusetts Capitalized State Revolving Fund Loan Program	Program for General Operations	Combined Totals 6/30/2018	Combined Totals 6/30/2017
OPERATING REVENUES:						
Loan servicing fees	\$ -	\$ -	\$ -	\$ 5,615	\$ 5,615	\$ 5,608
Loan origination fees	-	-	-	-	-	1,821
Interest income	82,443	24,715	35	835	108,028	90,573
Contract assistance from Commonwealth of Massachusetts	22,159	3,844	-	-	26,003	26,572
Total operating revenues	104,602	28,559	35	6,450	139,646	124,574
OPERATING EXPENSES:						
Commonwealth of Massachusetts:						
Department of Environmental Protection -						
programmatic support costs	2,868	4,715	-	-	7,583	8,545
Principal forgiveness	4,282	3,090	-	-	7,372	5,672
General and administrative	-	-	-	2,331	2,331	5,210
InterFund transfers	14,505	11,494	(25,988)	(11)	-	-
Arbitrage rebate payments	-	-	-	-	-	12,328
Interest expense	96,980	28,313	-	-	125,293	126,551
Total operating expenses	118,635	47,612	(25,988)	2,320	142,579	158,306
OPERATING (LOSS) INCOME	(14,033)	(19,053)	26,023	4,130	(2,933)	(33,732)
NONOPERATING REVENUE:						
Capitalization Grant Revenue:						
U.S. Environmental Protection Agency						
capitalization grants	45,101	15,352	-	-	60,453	61,534
Commonwealth of Massachusetts matching grants	9,003	3,064	-	-	12,067	12,163
Total nonoperating revenues	54,104	18,416	-	-	72,520	73,697
INCREASE IN NET POSITION	40,071	(637)	26,023	4,130	69,587	39,965
NET POSITION - BEGINNING OF YEAR	1,864,976	463,371	1,547	46,657	2,376,551	2,336,586
NET POSITION - END OF YEAR	\$ 1,905,047	\$ 462,734	\$ 27,570	\$ 50,787	\$ 2,446,138	\$ 2,376,551

See Independent Auditors' Report

MASSACHUSETTS CLEAN WATER TRUST

Five Year Schedule of Fifteen Largest Borrowers
For fiscal years ending June 30, 2014 through June 30, 2018
(in thousands)

BORROWER NAME	June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans	Outstanding Loan Amount	% of Loans
Massachusetts Water Resources Authority	\$ 942,880	25.42%	\$ 1,007,016	25.24%	\$ 1,035,797	26.34%	\$ 1,042,931	27.16%	\$ 1,031,168	27.81%
City of Fall River	140,057	3.78%	147,324	3.69%	148,002	3.76%	147,160	3.83%	138,007	3.72%
Upper Blackstone Water Pollution Abatement District	121,769	3.28%	126,813	3.18%	132,646	3.37%	138,321	3.60%	143,835	3.88%
City of New Bedford	111,075	3.00%	119,934	3.01%	114,701	2.92%	114,390	2.98%	121,929	3.29%
City of Chicopee	108,302	2.92%	113,126	2.84%	90,196	2.29%	94,011	2.45%	79,097	2.13%
Springfield Water & Sewer Commission	102,307	2.76%	107,523	2.70%	88,758	2.26%	70,346	1.83%	53,150	1.43%
City of Taunton	86,743	2.34%	93,237	2.34%	94,776	2.41%	79,998	2.08%	78,612	2.12%
City of Lowell	77,707	2.10%	83,396	2.09%	74,632	1.90%	73,851	1.55%	94,651	2.55%
Town of Falmouth	75,128	2.03%	78,844	1.98%	45,024	1.15%	14,657	0.38%	15,811	0.43%
City of Brockton	73,527	1.98%	80,255	2.01%	81,643	2.08%	86,108	2.24%	90,276	2.43%
City of Marlborough	72,212	1.95%	75,097	1.88%	77,608	1.97%	59,638	1.55%	40,756	1.10%
City of Revere	61,335	1.65%	63,419	1.59%	28,667	0.73%	19,845	0.52%	11,319	0.31%
City of Gloucester	56,121	1.51%	60,689	1.52%	65,607	1.67%	69,931	1.82%	55,798	1.50%
Town of Billerica	50,002	1.35%	53,702	1.35%	42,313	1.08%	45,304	1.18%	25,262	0.68%
City of Lawrence	47,872	1.29%	52,209	1.31%	42,690	1.09%	36,197	0.94%	27,415	0.74%
Total all others	1,581,515	42.64%	1,726,867	43.30%	1,768,697	44.99%	1,747,137	45.51%	1,700,691.00	45.88%
TOTALS AS OF FISCAL YEAR END	\$ 3,708,552	100%	\$ 3,989,452	100%	\$ 3,931,759	100%	\$ 3,839,825	100%	\$ 3,707,776	100%

See Independent Auditors' Report

MASSACHUSETTS CLEAN WATER TRUST

Schedule of SRF Loans Outstanding By Borrower

June 30, 2018

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Abington	\$ 3,170,364	\$ -	\$ 3,170,364	0.09%
Acton	13,414,601	-	13,414,601	0.36
Acushnet	2,499,686	-	2,499,686	0.07
Adams	1,273,163	-	1,273,163	0.03
Adams Fire District	1,412,380	-	1,412,380	0.04
Agawam	784,829	-	784,829	0.02
Amesbury	14,158,566	-	14,158,566	0.38
Amherst	10,420	-	10,420	0.00
Andover	2,714,626	619,798	3,334,424	0.09
Aquarion Water Company of Massachusetts	1,230,000	-	1,230,000	0.03
Ashburnham	912,282	-	912,282	0.02
Ashfield Water District	85,000	-	85,000	0.00
Ashland	2,003,805	-	2,003,805	0.05
Athol	4,223,301	-	4,223,301	0.11
Attleboro	16,866,194	-	16,866,194	0.45
Auburn	206,668	-	206,668	0.01
Auburn Water District	1,227,284	2,469,046	3,696,330	0.10
Avon	496,867	-	496,867	0.01
Ayer	41,107	-	41,107	0.00
Barnstable	17,891,104	2,393,211	20,284,315	0.55
Barnstable County	16,400,523	4,250,000	20,650,523	0.56
Barre	24,025	55,888	79,913	0.00
Belchertown	4,254,752	-	4,254,752	0.11
Bellingham	566,726	12,497,526	13,064,252	0.35
Belmont	6,270,811	2,014,779	8,285,590	0.22
Berlin	25,459	-	25,459	0.00
Bernardston	14,953	-	14,953	0.00
Beverly	265,691	-	265,691	0.01
Billerica	17,554,066	32,448,107	50,002,173	1.35
Blackstone	8,294	-	8,294	0.00
Boston	1,695,000	13,724,492	15,419,492	0.42
Bourne	168,129	-	168,129	0.01
Boxford	19,003	-	19,003	0.00
Boylston	17,246	-	17,246	0.00
Brewster	91,000	-	91,000	0.00
Bridgewater	1,759,647	2,695,358	4,455,005	0.12
Bristol County	863,009	-	863,009	0.02
Brockton	65,492,339	8,034,416	73,526,755	1.98
Brockton Sewer Enterprise System	116,265	-	116,265	0.00
Brookfield	22,706	-	22,706	0.00
Buckland	59,500	-	59,500	0.00
Burlington	4,067,987	-	4,067,987	0.11
Cambridge	5,060,692	20,919,431	25,980,123	0.70
Canton	2,601,226	-	2,601,226	0.07
Centerville-Osterville-Marstons Mills	1,655,252	-	1,655,252	0.04
Charles River Pollution Control District	4,146,453	21,197,790	25,344,243	0.68
Charlton	4,716,576	-	4,716,576	0.13
Chatham	9,909,724	6,285,001	16,194,725	0.44
Chelmsford	23,760,785	-	23,760,785	0.64
Chelmsford Water District	2,030,907	-	2,030,907	0.05
Chelsea	170,141	-	170,141	0.01

(Continued)

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Cherry Valley & Rochdale Water District	\$ 387,862	\$ 486,673	\$ 874,535	0.02%
Chesterfield	103,575	-	103,575	0.00
Chicopee	66,562,502	41,739,097	108,301,599	2.92
Clarksburg	28,600	-	28,600	0.00
Clinton	3,210,240	86,668	3,296,908	0.09
Cohasset	19,307,314	-	19,307,314	0.52
Colrain	9,462	-	9,462	0.00
Concord	7,732,506	138,220	7,870,726	0.21
Conway	6,016	-	6,016	0.00
Danvers	16,102,653	-	16,102,653	0.43
Dartmouth	12,330,524	8,878,633	21,209,157	0.57
Dedham	275,026	-	275,026	0.01
Deerfield Fire District	426,165	-	426,165	0.01
Dennis	140,000	-	140,000	0.00
Dennis Water District	4,299,528	-	4,299,528	0.12
Dighton	63,986	-	63,986	0.00
Dighton-Rehoboth Regional School District	398,491	-	398,491	0.01
Dighton Water District	3,440,780	-	3,440,780	0.09
Douglas	2,785,348	-	2,785,348	0.08
Dover	31,000	-	31,000	0.00
Dracut	20,132,853	12,565,072	32,697,925	0.88
Dracut Water Supply District	183,874	-	183,874	0.01
Dudley	93,738	-	93,738	0.00
Duxbury	1,923,499	-	1,923,499	0.05
East Bridgewater	10,533,267	-	10,533,267	0.28
East Longmeadow	289,743	-	289,743	0.01
Eastham	111,000	36,269,274	36,380,274	0.98
Easthampton	2,971,494	1,055,505	4,026,999	0.11
Easton	4,196,545	1,329,775	5,526,320	0.15
Erving	2,693,023	-	2,693,023	0.07
Essex	9,514,284	-	9,514,284	0.26
Everett	2,527,734	1,116,613	3,644,347	0.10
Fairhaven	616,789	647,412	1,264,201	0.03
Fall River	114,314,033	25,742,834	140,056,867	3.78
Falmouth	11,012,627	64,115,807	75,128,434	2.03
Fitchburg	19,167,704	25,131,591	44,299,295	1.19
Foxborough	3,367,720	-	3,367,720	0.09
Framingham	39,654,035	7,292,571	46,946,606	1.27
Franklin	2,432,105	-	2,432,105	0.07
Gardner	2,902,143	4,253,914	7,156,057	0.19
Georgetown	498,200	-	498,200	0.01
Gill	4,532	-	4,532	0.00
Gloucester	40,766,439	15,355,036	56,121,475	1.51
Grafton	8,330	14,284,820	14,293,150	0.39
Great Barrington	40,000	8,259,769	8,299,769	0.22
Greater Lawrence Sanitary District	17,138,679	2,197,902	19,336,581	0.52
Greenfield	595,769	-	595,769	0.02
Greens Condominium Trust	98,376	-	98,376	0.00
Groton	2,688,859	-	2,688,859	0.07
Hadley	2,701,534	-	2,701,534	0.07
Halifax	111,000	-	111,000	0.00
Hanover	65,868	249,900	315,768	0.01
Hanson	1,342,500	127,500	1,470,000	0.04
Hardwick	1,850	-	1,850	0.00
Harvard	2,002,368	195,985	2,198,353	0.06
Harwich	69,841	1,721,937	1,791,778	0.05
Hatfield	92,714	-	92,714	0.00
Haverhill	20,384,136	14,503,371	34,887,507	0.94

(Continued)

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Hillcrest Sewer District	\$ 1,239,823.00	\$ -	\$ 1,239,823.00	0.03%
Hingham	425,842	-	425,842	0.01
Hinsdale	1,480,000	-	1,480,000	0.04
Holbrook	7,349,191	-	7,349,191	0.20
Holden	5,671,269	482,065	6,153,334	0.17
Holland	20,000	-	20,000	0.00
Holliston	30,000	2,189,976	2,219,976	0.06
Holyoke	13,468,391	-	13,468,391	0.36
Hoosac Water Quality District	3,757,673	-	3,757,673	0.10
Hopedale	492,535	-	492,535	0.01
Hopkinton	8,420,216	-	8,420,216	0.23
Hudson	12,650,451	-	12,650,451	0.34
Hull	1,439,961	-	1,439,961	0.04
Ipswich	2,564,895	3,644,652	6,209,547	0.17
Kingston	22,271,748	3,820,375	26,092,123	0.70
Lakeville	82,103	-	82,103	0.00
Lancaster	40,404	-	40,404	0.00
Lanesborough Village Fire & Water District	725,000	-	725,000	0.02
Lawrence	18,261,209	29,610,913	47,872,122	1.29
Lee	10,467,176	-	10,467,176	0.28
Leicester	96,460	-	96,460	0.00
Leicester Water Supply District	176,983	-	176,983	0.01
Leominster	24,912,525	11,162,975	36,075,500	0.97
Lexington	7,252	-	7,252	0.00
Lincoln	1,250,000	-	1,250,000	0.03
Littleton	33,128	271,240	304,368	0.01
Longmeadow	1,964,134	-	1,964,134	0.05
Lowell	77,669,706	17,344,610	95,014,316	2.57
Ludlow	3,143,660	462,485	3,606,145	0.10
Lunenburg	3,340,898	1,091,883	4,432,781	0.12
Lunenburg Water District	2,686,123	-	2,686,123	0.07
Lynn Water and Sewer Commission	36,708,683	6,493,595	43,202,278	1.16
Lynnfield	350,286	-	350,286	0.01
Malden	7,754,992	10,571,761	18,326,753	0.49
Manchester-by-the-Sea	130,000	1,571,307	1,701,307	0.05
Mansfield	11,824,593	-	11,824,593	0.32
Mansfield Foxborough Norton Regional	7,805,855	929,522	8,735,377	0.24
Marion	14,024,350	2,280,718	16,305,068	0.44
Marlborough	36,106,096	36,106,282	72,212,378	1.95
Marshfield	7,938,133	170,000	8,108,133	0.22
Mashpee	303,450	53,352	356,802	0.01
Massachusetts Development Finance Agency	8,518,025	-	8,518,025	0.23
Massachusetts Water Resources Authority	803,922,024	138,958,161	942,880,185	25.42
Mattapoisett	7,854,203	-	7,854,203	0.21
Mattapoisett River Valley Water District	7,718,634	-	7,718,634	0.21
Maynard	8,505,868	-	8,505,868	0.23
Medfield	964,129	-	964,129	0.03
Medway	28,489	2,608,658	2,637,147	0.07
Melrose	1,835,305	-	1,835,305	0.05
Merrimac	20,000	789,668	809,668	0.02
Methuen	14,812,187	-	14,812,187	0.40
Middleborough	1,168,873	23,887,115	25,055,988	0.68
Middleton	36,561	-	36,561	0.00
Millbury	16,418,849	-	16,418,849	0.44
Millville	373,828	-	373,828	0.01
Milton	80,782	-	80,782	0.00
Monroe	-	138,191	138,191	0.00
Monson	1,049,054	-	1,049,054	0.03

(Continued)

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Montague	\$ 1,902,007	\$ -	\$ 1,902,007	0.05%
Monterey	9,796	-	9,796	0.00
Nantucket	42,831,090	4,849,313	47,680,403	1.29
Natick	2,399,350	-	2,399,350	0.07
Needham	5,501,576	-	5,501,576	0.15
New Bedford	90,487,950	20,586,718	111,074,668	3.00
Newbury	6,281,951	-	6,281,951	0.17
Newburyport	37,228,865	259,626	37,488,491	1.01
Newton	2,508,600	-	2,508,600	0.07
Norfolk	276,167	-	276,167	0.01
North Adams	295,119	-	295,119	0.01
North Andover	3,991,367	-	3,991,367	0.11
North Attleboro	17,944,011	9,829,443	27,773,454	0.75
North Brookfield	725,000	-	725,000	0.02
North Raynham Water District	2,551,788	-	2,551,788	0.07
North Reading	170,868	-	170,868	0.01
North Sagamore Water District	845,556	-	845,556	0.02
Northampton	14,429,009	-	14,429,009	0.39
Northborough	100,087	-	100,087	0.00
Northbridge	1,721,895	-	1,721,895	0.05
Norton	1,439,588	2,924,894	4,364,482	0.12
Norwell	63,633	-	63,633	0.00
Norwood	3,117,571	4,647,036	7,764,607	0.21
Oak Bluffs	4,425,710	-	4,425,710	0.12
Orange	295,103	-	295,103	0.01
Orleans	40,000	-	40,000	0.00
Palmer	5,380,442	5,320,610	10,701,052	0.29
Paxton	22,944	1,257,960	1,280,904	0.04
Pembroke	2,853,626	582,439	3,436,065	0.09
Pepperell	2,045,000	-	2,045,000	0.06
Phillipston	22,940	-	22,940	0.00
Pittsfield	4,289,762	3,591,561	7,881,323	0.21
Plainville	2,506,687	606,197	3,112,884	0.08
Plymouth	10,007,863	542,866	10,550,729	0.28
Plympton	9,631	-	9,631	0.00
Provincetown	9,572,104	-	9,572,104	0.26
Quincy	7,578,370	2,773,278	10,351,648	0.28
Randolph	9,878,914	1,682,466	11,561,380	0.31
Raynham	2,843,545	-	2,843,545	0.08
Reading	3,473	-	3,473	0.00
Revere	9,479,465	51,855,344	61,334,809	1.65
Richmond	1,964,736	-	1,964,736	0.05
Rockland	2,611,152	-	2,611,152	0.07
Rowley	9,343,194	170,000	9,513,194	0.26
Royalston	6,864	-	6,864	0.00
Russell	190,000	-	190,000	0.01
Rutland	17,794	-	17,794	0.00
Salem	1,166,539	-	1,166,539	0.03
Salisbury	1,877,540	-	1,877,540	0.05
Sandwich	92,707	-	92,707	0.00
Saugus	8,139,160	4,759,947	12,899,107	0.35
Scituate	10,460,101	-	10,460,101	0.28
Seekonk	993,187	-	993,187	0.03
Seekonk Water District	1,490,953	-	1,490,953	0.04
Sharon	43,575	-	43,575	0.00
Shirley	3,015,892	-	3,015,892	0.08
Shrewsbury	874,069	3,335,915	4,209,984	0.11

(Continued)

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Shutesbury	\$ 125,595	\$ -	\$ 125,595	0.00%
Somerset	4,160,551	-	4,160,551	0.11
South Deerfield Water Supply District	555,000	-	555,000	0.02
South Essex Sewerage District	4,251,259	7,555,592	11,806,851	0.32
South Grafton Water District	1,227,262	-	1,227,262	0.03
South Hadley	3,073,951	-	3,073,951	0.08
South Hadley Fire District #1	480,422	-	480,422	0.01
Southampton	661,000	-	661,000	0.02
Southborough	424,341	-	424,341	0.01
Southbridge	9,368,782	-	9,368,782	0.25
Southwick	9,518	-	9,518	0.00
Spencer	4,714,597	-	4,714,597	0.13
Springfield Water & Sewer Commission	43,189,875	59,117,457	102,307,332	2.76
Sterling	544,234	-	544,234	0.02
Stockbridge	4,008,003	1,727,189	5,735,192	0.16
Stoughton	1,353,342	347,500	1,700,842	0.05
Stow	392,298	-	392,298	0.01
Sturbridge	11,837,801	-	11,837,801	0.32
Sunderland	10,126	-	10,126	0.00
Sutton	3,472,651	-	3,472,651	0.09
Swampscott	204,337	-	204,337	0.01
Swansea	148,576	-	148,576	0.00
Swansea Water District	12,087,324	-	12,087,324	0.33
Taunton	61,084,264	25,659,081	86,743,345	2.34
Templeton	3,196,692	-	3,196,692	0.09
Tewksbury	3,599,042	-	3,599,042	0.10
Tisbury	2,644,093	80,562	2,724,655	0.07
Townsend	973,819	-	973,819	0.03
Truro	31,000	-	31,000	0.00
Turners Falls Fire District	-	715,735	715,735	0.02
Tyngsborough	650,618	-	650,618	0.02
Upper Blackstone	121,768,983	-	121,768,983	3.28
Upton	326,800	-	326,800	0.01
Uxbridge	-	3,057,124	3,057,124	0.08
Wakefield	863,621	-	863,621	0.02
Walpole	3,202,194	-	3,202,194	0.09
Waltham	1,733,128	-	1,733,128	0.05
Ware	59,100	-	59,100	0.00
Wareham	18,910,890	170,000	19,080,890	0.52
Warren Water District	100,000	-	100,000	0.00
Water Supply District of Acton	-	11,800,263	11,800,263	0.32
Wayland	180,045	-	180,045	0.01
Webster	7,552,256	4,144,665	11,696,921	0.32
Wellfleet	405,000	175,198	580,198	0.02
West Boylston	5,344,426	-	5,344,426	0.14
West Boylston Water District	646,305	-	646,305	0.02
West Bridgewater	434,658	132,663	567,321	0.02
West Groton Water Sewer District	741,744	-	741,744	0.02
West Newbury	105,251	-	105,251	0.00
West Springfield	6,761,558	496,146	7,257,704	0.20
West Stockbridge	120,000	-	120,000	0.00
Westborough	36,007,439	356,904	36,364,343	0.98
Westfield	7,586,724	2,059,359	9,646,083	0.26
Westford	5,540,744	-	5,540,744	0.15
Westport	-	212,500	212,500	0.01
Westwood	204,300	-	204,300	0.01
Weymouth	25,626,102	-	25,626,102	0.69
Whitman	2,459,416	-	2,459,416	0.07

(Continued)

Borrower Name	Loans Securing Prior Bonds	Loans Securing MTA Bonds	Loans Outstanding as of June 30, 2018	% of Total Loans Outstanding
Wilbraham	\$ 2,670,556	\$ -	\$ 2,670,556	0.07%
Wilmington	145,743	-	145,743	0.00
Winchendon	4,824,216	-	4,824,216	0.13
Winchester	4,006	-	4,006	0.00
Windbrook Acres	90,000	-	90,000	0.00
Woburn	9,723,817	-	9,723,817	0.26
Woodvale Condominium Trust	118,325	-	118,325	0.00
Worcester	4,640,808	3,934,852	8,575,660	0.23
Wrentham	1,431,526	-	1,431,526	0.04
Yarmouth	352,700	-	352,700	0.01
Total	<u>\$ 2,755,242,562</u>	<u>\$ 953,308,629</u>	<u>\$ 3,708,551,191</u>	100%
Clean Water Program			\$ 2,801,928,265	
Drinking Water Program			\$ 906,622,926	

See Independent Auditors' Report



MASSACHUSETTS
CLEAN WATER TRUST

A Component Unit of the Commonwealth of Massachusetts

STATISTICAL SECTION

As of and for the years ended June 30, 2018 and June 30, 2017

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(Unaudited)

Financial Trends

These schedules contain trend information to help the reader understand how the Trust's financial performance and fiscal health have changed over time. Schedules included are:

Ten Year Schedule of Changes in Net Position	1
Ten Year Schedule of Net Position Components	2

Revenue Capacity

This schedule contains information to help the reader assess the factors affecting the Trust's ability to provide interim loans and general operations. Schedule included is:

Ten Year Combined Schedule of Operating Revenues by Source	3
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Debt Capacity

These schedules present information to help the reader assess the affordability of the Trust's current levels of outstanding debt and Trust's ability to issue additional debt in the future. Schedules included are:

Ten Year Debt Schedule	4
Ten Year Schedule of Pledged Revenue Coverage	5
Ten Year Combined Schedule of Operating Expenses	6

Operating Information

This schedule contains information to help the reader assess the factors affecting the Trust's ability to provide interim loans and general operations. Schedule included is:

Ten Year Schedule of Full Time Equivalent Employees by Program and Agency	7
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Demographic Information

These schedules offer demographic and economic indicators to help the reader understand the environment which the Trust's financial activities take place and the aid provided by the Commonwealth to the Trust. Schedules included are:

Ten Year Schedule of Contract Assistance Provided by the Commonwealth of Massachusetts, Massachusetts Population and Per Capita Contract Assistance	8
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MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Changes in Net Position For fiscal years ending June 30, 2009 through June 30, 2018 (in thousands)

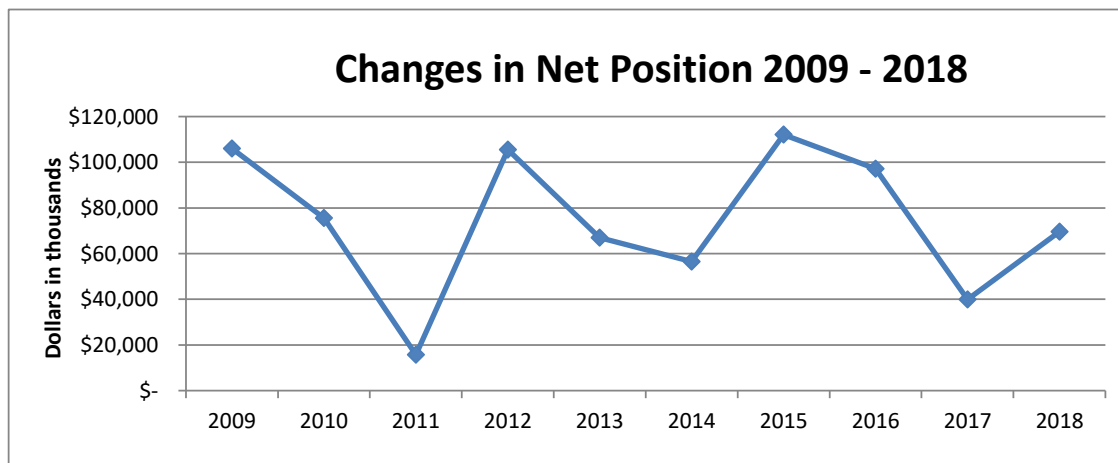
Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Nonoperating Revenue	Changes in Net Position
2018	\$ 139,646	\$ 142,579	\$ (2,933)	\$ 72,520	\$ 69,587
2017	124,574	(4) 158,306	(33,732)	73,697	39,965
2016	170,273	149,662	20,611	76,519	97,130
2015	184,909	148,939	35,970	76,099	112,069
2014	164,121	(3) 181,782	(17,661)	74,155	56,494
2013	190,947	(2) 202,622	(11,675)	78,670	66,995
2012	260,252	(2) 237,858	22,394	83,077	105,471
2011	201,146	(2) 273,500	(72,354)	88,050	15,696
2010	175,720	(1) 278,199	(102,479)	178,096	75,617
2009	194,359	192,139	2,220	103,748	105,968

(1) Includes a \$7.6 million, \$12.3 million, \$33.7 million, \$71.0 million, and a \$89.6 million reserve established for the anticipated future principal forgiveness associated with the disbursement of federal capitalization grant funds, including ARRA funds for the fiscal years ended June 30, 2014, 2013, 2012, 2011 and 2010, respectively.

(2) Fiscal Years 2013, 2012, and 2011 impacted by the implementation of GASB 65 during Fiscal Year 2013.

(3) Includes \$20.8 million nonoperating expense, which represents the return to the Commonwealth of its investment in the Commonwealth Program.

(4) Includes \$32.2 million decrease in fair market value year over year, a \$10.0 million payment of refunding savings to the Commonwealth and \$12.3 million in arbitrage rebate payments to the United States Treasury.



MASSACHUSETTS CLEAN WATER TRUST

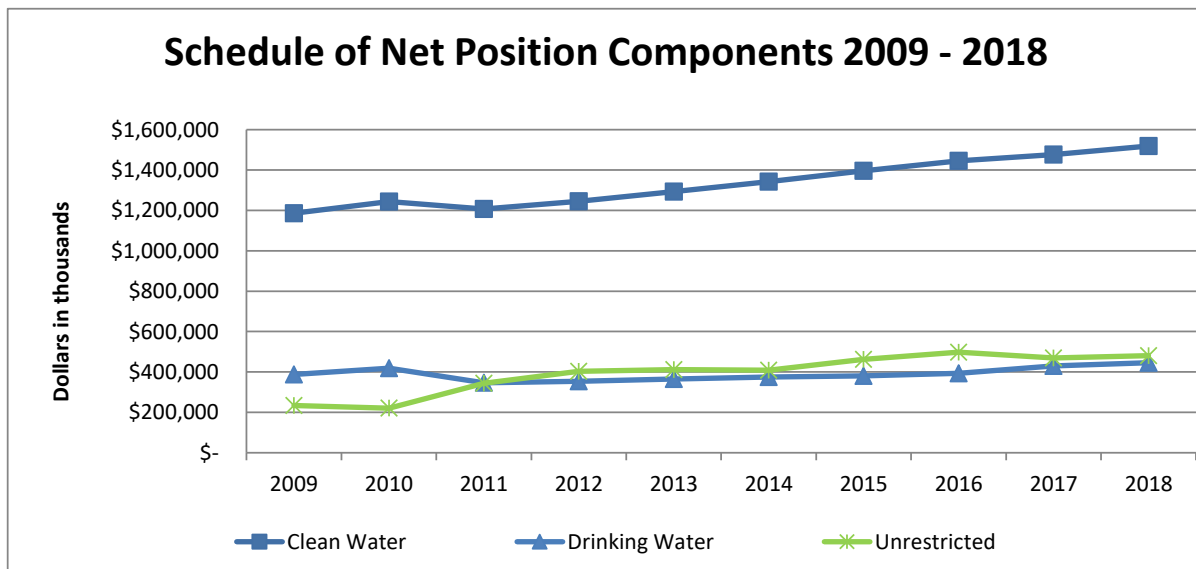
Ten Year Schedule of Net Position Components

For fiscal years ending June 30, 2009 through June 30, 2018

(in thousands)

<u>Year</u>	<u>Restricted</u> <u>Clean</u> <u>Water</u>	<u>Restricted</u> <u>Drinking</u> <u>Water</u>	<u>Total</u> <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
2018	\$ 1,518,880	\$ 445,833	\$ 1,964,713	\$ 481,425	\$ 2,446,138
2017	1,476,274	430,201	1,906,475	470,076	2,376,551
2016	1,445,703	392,748	1,838,451	498,135	2,336,586
2015	1,396,156	380,671	1,776,826	462,629	2,239,456
2014	1,342,846	375,206	1,718,052	409,335	2,127,387
2013	1,293,838	365,050	1,658,888	412,005	2,070,893
2012 ⁽¹⁾	1,245,659	354,383	1,600,042	403,856	2,003,898
2011 ⁽¹⁾	1,207,423	346,412	1,553,835	344,592	1,898,427
2010	1,243,728	418,378	1,662,106	220,624	1,882,730
2009	1,186,119	387,472	1,573,591	233,522	1,807,113

⁽¹⁾ Fiscal Years 2011 and 2012 were restated to reflect the implementation of GASB 65, in Fiscal Year 2013.



MASSACHUSETTS CLEAN WATER TRUST
Ten Year Combined Schedule of Operating Revenues by Source
For fiscal years ending June 30, 2009 through June 30, 2018
(in thousands)

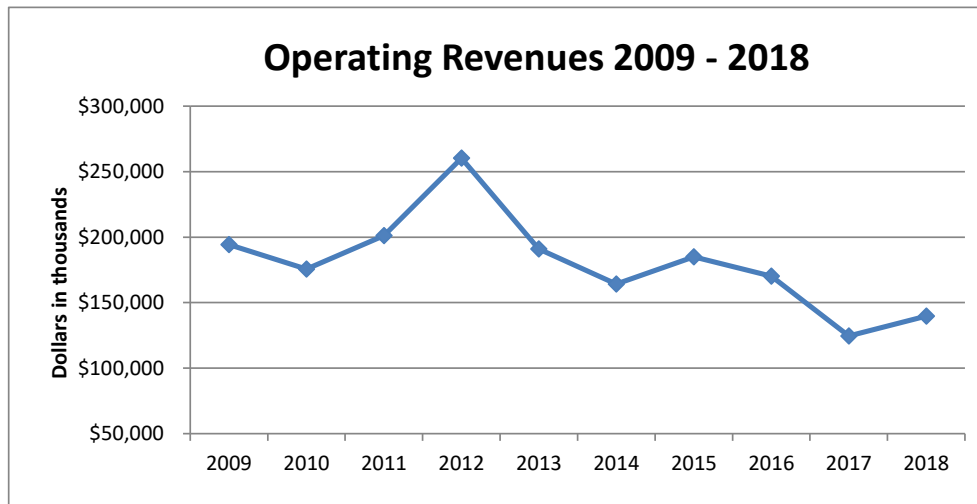
OPERATING REVENUES

Fiscal Year	Loan Servicing Fees	Loan Origination Fees	Interest Income ⁽¹⁾	Total Operating Revenues
2018	\$ 5,615	\$ -	\$ 134,031	\$ 139,646
2017	5,608	1,821	117,145 ⁽³⁾	124,574
2016	5,515	1,926	162,832	170,273
2015	5,315	2,150	177,444	184,909
2014	5,137	19	158,965	164,121
2013	5,288	1,698	183,961	190,947
2012	5,270	2,243	252,739 ⁽²⁾	260,252
2011	5,209	129	195,808	201,146
2010	5,092	89	170,539	175,720
2009	1,557	165	192,637	194,359

⁽¹⁾ Includes contract assistance received from the Commonwealth of Massachusetts.

⁽²⁾ Includes \$57.7 million in gains realized on the termination of certain guaranteed investment contracts.

⁽³⁾ Includes \$32.2 million decrease in fair market value year over year, a \$10.0 million payment of refunding savings to the Commonwealth and \$12.3 million in arbitrage rebate payments to the U.S. Treasury.



MASSACHUSETTS CLEAN WATER TRUST

Ten Year Debt Schedule

For fiscal years ending June 30, 2009 through June 30, 2018
(in thousands)

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Water Pollution Abatement Revenue Bonds:										
Massachusetts Water Resources Authority Loan Program	\$ 7,280	\$ 8,170	\$ 9,100	\$ 10,060	\$ 11,365	\$ 16,410	\$ 22,370	\$ 48,200	\$ 54,545	\$ 63,315
South Essex Sewerage District Loan Program	-	-	285	890	1,855	2,765	3,780	5,015	6,440	8,030
New Bedford Loan Program	-	-	-	270	785	1,515	2,405	3,440	4,605	5,890
Pool Loan Program	1,434,300	1,513,335	1,466,700	1,362,395	1,328,845	2,078,738	1,989,878	2,125,200	1,812,331	1,988,091
Subtotal Revenue Bonds	1,441,580	1,521,505	1,476,085	1,373,615	1,342,850	2,099,428	2,018,433	2,181,855	1,877,921	2,065,326
Subordinated Revenue Refunding Bonds:										
Massachusetts Water Resources Authority Loan Program	36,595	54,040	54,040	54,040	63,620	63,775	63,775	63,775	63,775	261,170
New Bedford Loan Program	-	-	-	-	-	36,460	40,850	44,935	94,935	98,500
Pool Loan Program	1,141,170	1,392,855	1,462,805	1,583,935	1,678,245	1,311,580	1,358,240	1,264,190	1,246,130	1,049,865
Subtotal Revenue Refunding Bonds	1,177,765	1,446,895	1,516,845	1,637,975	1,741,865	1,411,815	1,462,865	1,372,900	1,404,840	1,409,535
Total Bonds Payable	2,619,345	2,968,400	2,992,930	3,011,590	3,084,715	3,511,243	3,481,298	3,554,755	3,282,761	3,474,861
Add (deduct) unamortized amounts:										
Bond premium	313,333	347,809	335,272	320,762	304,295	259,765	233,905	211,862	194,122	185,723
(1) Net unamortized excess of reacquisition price over net carrying value of defeased bonds	-	-	-	-	-	-	-	-	(82,837)	(62,723)
Total Bonds Payable, net	\$ 2,932,678	\$ 3,316,209	\$ 3,328,202	\$ 3,332,352	\$ 3,389,010	\$ 3,771,008	\$ 3,715,203	\$ 3,766,617	\$ 3,394,046	\$ 3,597,861

(1) Net Bonds Payable restated after the implementation of GASB 65, Items Previously Reported as Assets and Liabilities, which resulted in the write off of bond issuance costs as of July 1, 2011.

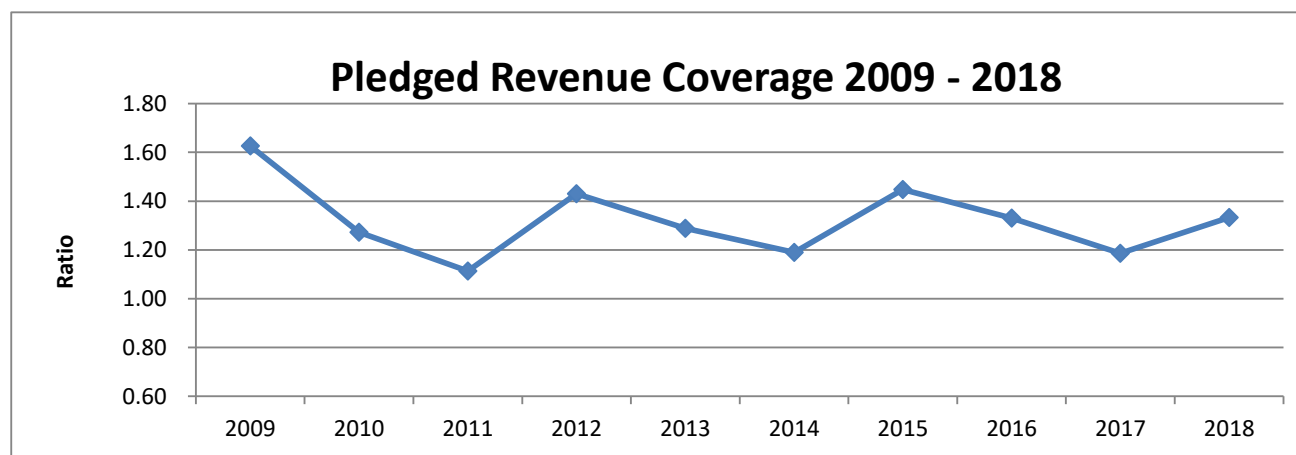
MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Pledged Revenue Coverage
For fiscal years ending June 30, 2009 through June 30, 2018
(Dollar amounts in thousands)

Fiscal Year	Changes in Net Position	Comm of MA Contract Assistance	Principal and Interest Received from Borrowers ⁽¹⁾	Total Receivable and Revenue	<u>Debt Service Requirements</u>			Coverage ratio
					Principal	Interest	Total Debt Service	
2018	\$ 69,587	\$ 46,773	\$ 375,557	\$ 491,917	\$ 231,485	\$ 137,460	\$ 368,945	1.33
2017	39,965	51,179	343,632	434,776	225,895	140,716	366,611	1.19
2016	97,130	57,379	334,873	489,382	226,465	141,504	367,969	1.33
2015	112,069	61,802	318,080	491,951	205,540	134,400	339,940	1.45
2014	56,494	62,491	332,531	451,516	215,753	163,928	379,681	1.19
2013	66,995	62,811	305,125	434,931	172,306	165,171	337,477	1.29
2012 ⁽²⁾	105,471	64,986	338,173	508,630	183,102	172,561	355,663	1.43
2011 ⁽²⁾	15,696	66,093	296,303	378,092	168,319	171,296	339,615	1.11
2010	75,617	67,262	295,797	438,676	175,090	169,777	344,867	1.27
2009	105,968	66,856	355,589	528,413	152,243	172,697	324,940	1.63

⁽¹⁾ Includes interest received from earnings on Debt Service Reserve Funds.

⁽²⁾ Fiscal Years 2011 and 2012 were restated for the implementation of GASB 65, in Fiscal Year 2013.



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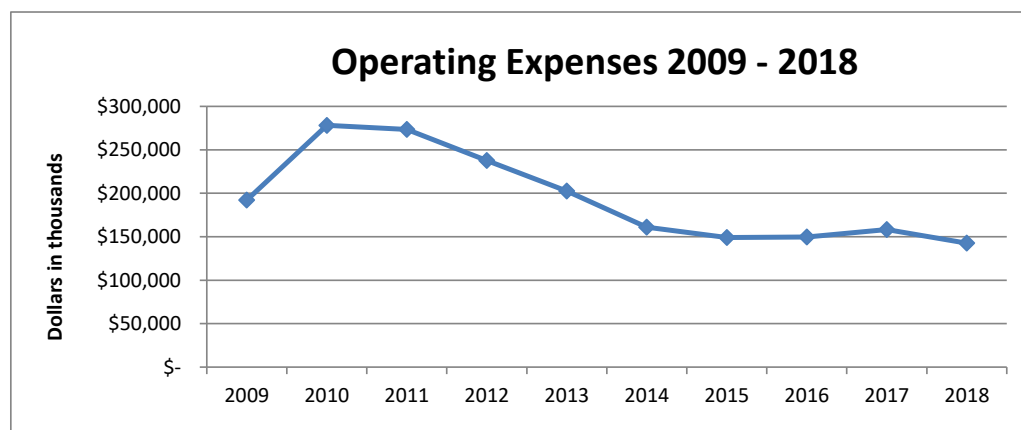
Ten Year Combined Schedule of Operating Expenses
For fiscal years ending June 30, 2009 through June 30, 2018
(in thousands)

OPERATING EXPENSES

Fiscal Year	DEP Programmatic Support Costs	General and Administrative	Arbitrage Rebate Payments	Interest Expense	Grant Disbursement ⁽¹⁾	Total Operating Expenses
2018	\$ 7,583	\$ 2,331	\$ -	\$ 125,293	\$ 7,372	\$ 142,579
2017	8,545	5,210	12,328	126,551	5,672	158,306
2016	8,421	4,092	3,785	127,247	6,117	149,662
2015	5,793	5,923	1,538	130,888	4,797	148,939
2014	7,418	7,860	166	137,959	7,567	160,970
2013	8,921	5,046 ⁽²⁾	6,725	169,595	12,335	202,622
2012	11,369	8,440 ⁽²⁾	10,487	173,869	33,693	237,858
2011	10,482	8,843 ⁽²⁾	1,122	182,035	71,018	273,500
2010	12,168	4,754	972	170,724	89,581	278,199
2009	8,711	4,232	1,979	177,217	-	192,139

(1) Represents a reserve established for the anticipated future principal forgiveness associated with the disbursement of federal capitalization grants, including ARRA. The principal forgiveness is fully funded by the capitalization grants.

(2) Implemented GASB 65, Financial Reporting of Deferred Outflows, Deferred Inflows of Resources, and Net Position, resulting in the recognition of certain amounts as deferred inflows/outflows rather than assets/liabilities.



MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Full Time Equivalent Employees (FTE)

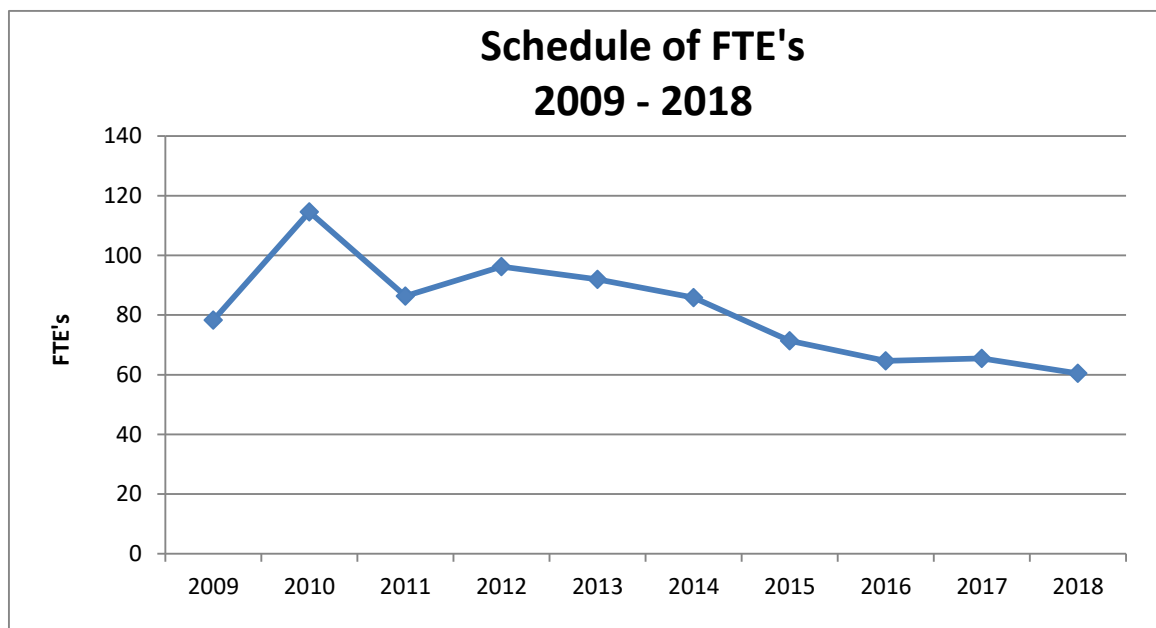
By Program and Agency

For fiscal years ending June 30, 2009 through June 30, 2018

<u>Year</u>	<u>MCWT - Administrative</u>	<u>DEP - Clean Water Program</u>	<u>DEP - Drinking Water Program</u>	<u>DEP - Admin Expendable Trust</u>	<u>Total</u>
2018	9.13	19.05	29.35	2.90	60.43
2017	8.76	19.15	33.30	4.20	65.41
2016	9.00	19.60	31.85	4.20	64.65
2015	8.83	17.50	32.08	12.98	71.39
2014	9.25	21.66	45.01	9.92	85.84
2013	9.75	21.49	50.17	10.50	91.91
2012	9.78	22.00	50.19	14.27	96.24
2011	9.27	21.50	51.77	3.79	86.33
2010	9.70	29.43	68.02	7.42	114.57
2009	8.50	9.15	37.50	23.14	78.29

MCWT - Massachusetts Clean Water Trust

DEP - Department of Environmental Protection

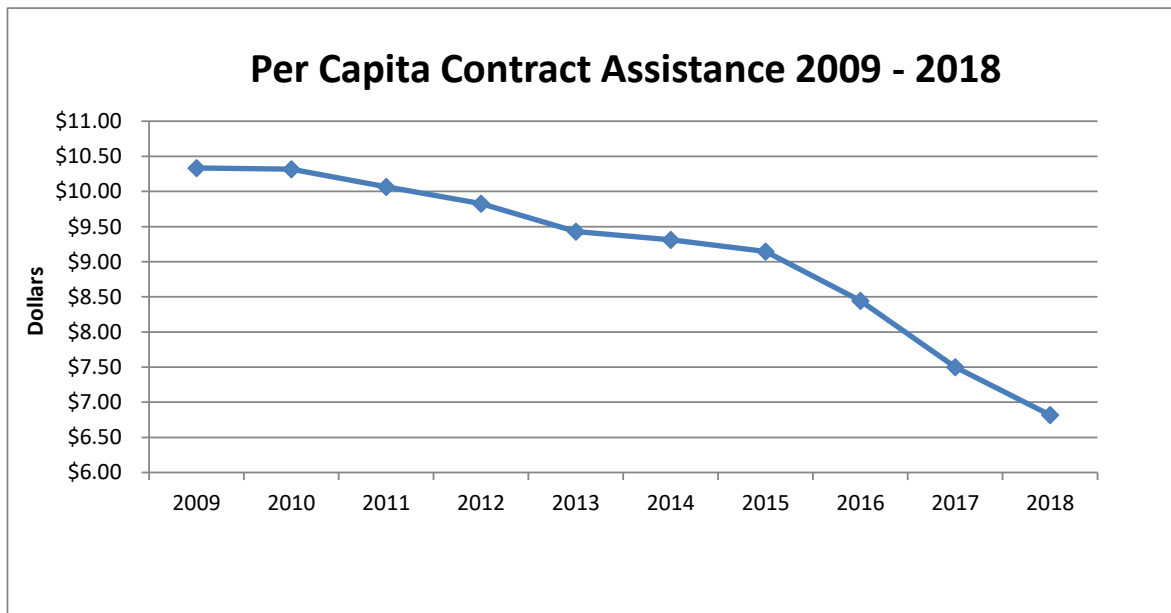


MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Contract Assistance Provided by the Commonwealth of Massachusetts, Massachusetts Population, and Per Capita Contract Assistance For fiscal years ending June 30, 2009 through June 30, 2018

Fiscal year ending June 30	Contract assistance provided (in thousands)	Population estimates (1) (in thousands)	Per capita Contract assistance
2018	\$ 46,773	6,860	\$ 6.82
2017	51,179	6,824	7.50
2016	57,379	6,794	8.45
2015	61,802	6,758	9.15
2014	62,491	6,711	9.31
2013	62,811	6,660	9.43
2012	64,986	6,612	9.83
2011	66,093	6,565	10.07
2010	67,262	6,518	10.32
2009	66,856	6,469	10.33

(1) Population estimates have been restated to most current United States Census Bureau data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau data.

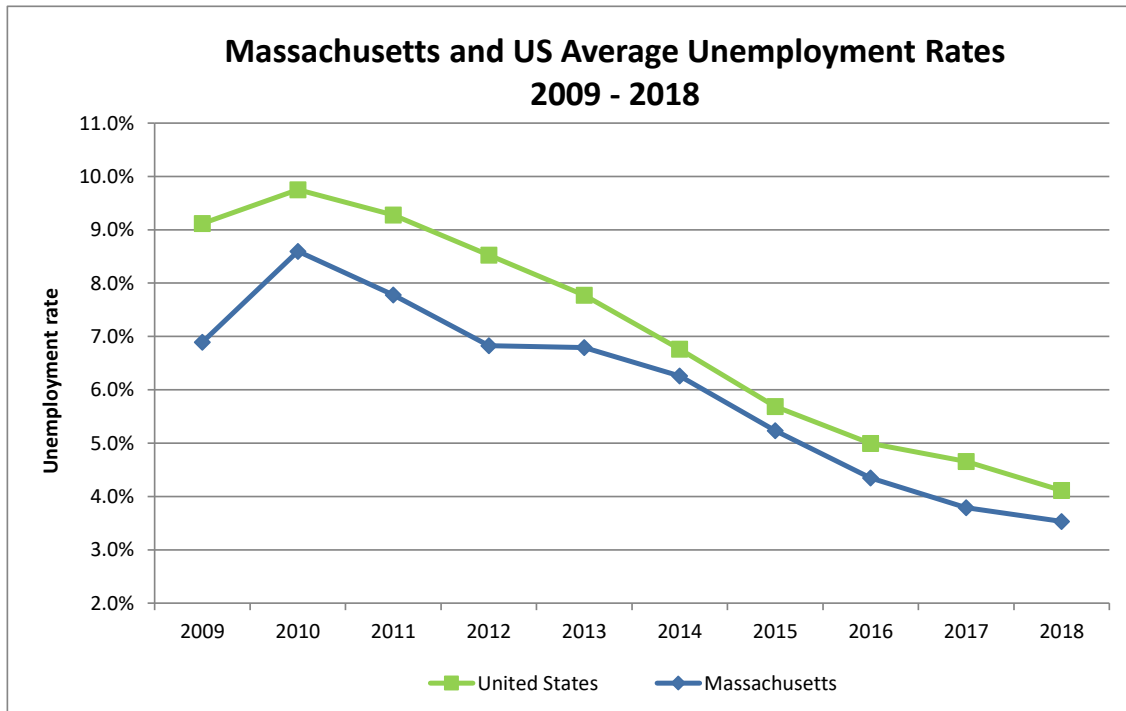


MASSACHUSETTS CLEAN WATER TRUST
Ten Year Schedule of Fiscal Year Annual Average Civilian Labor Force,
Unemployment and Unemployment Rates
For Massachusetts and the United States

(in thousands)

Fiscal Year	Labor Force	Massachusetts		Labor Force	United States		Massachusetts Rate as % of U.S. Rate
		Unemployment	Unemployment Rate %		Unemployment	Unemployment Rate %	
2018	3,680	130	3.5%	161,138	6,626	4.1%	85.4%
2017	3,641	138	3.8%	159,792	7,439	4.7%	81.4%
2016	3,590	156	4.3%	158,028	7,891	5.0%	87.0%
2015	3,592	188	5.2%	156,618	8,905	5.7%	92.1%
2014	3,531	221	6.3%	155,476	10,515	6.8%	92.5%
2013	3,504	238	6.8%	155,346	12,079	7.8%	87.4%
2012	3,472	237	6.8%	154,297	13,153	8.5%	80.1%
2011	3,472	270	7.8%	153,615	14,252	9.3%	83.8%
2010	3,478	299	8.6%	153,906	15,009	9.8%	88.2%
2009	3,468	239	6.9%	154,559	14,094	9.1%	75.6%

Source-Federal Bureau of Labor Statistics, September 2018. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics.



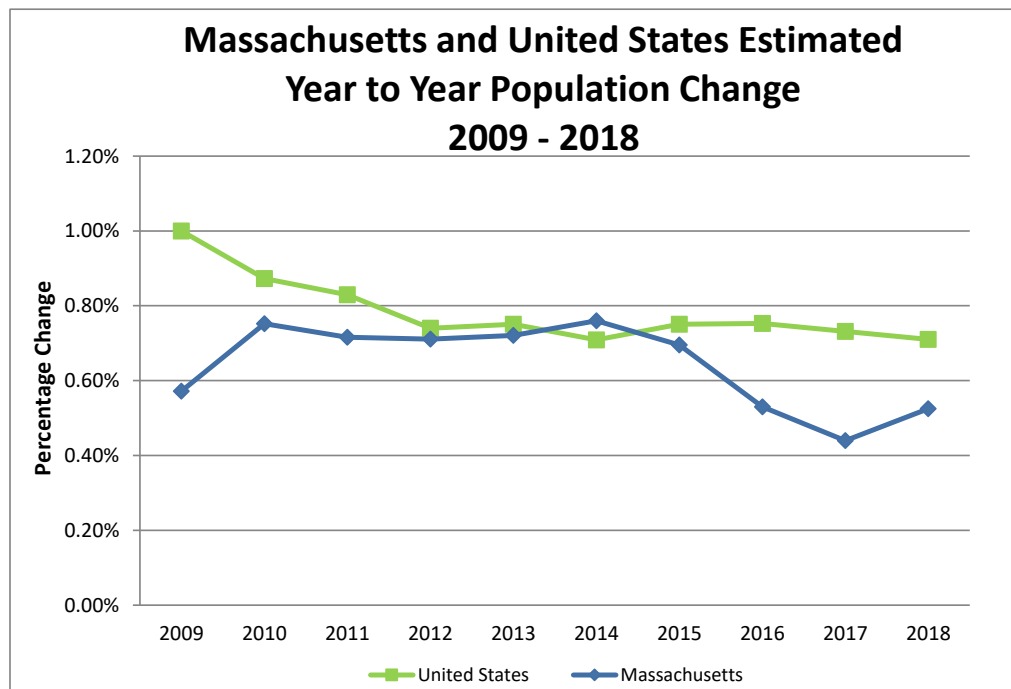
MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Massachusetts and United States Resident Population

(in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population (¹)	% Change	Massachusetts as % of U.S.
2018	325,719	0.7%	6,860	0.5%	2.1%
2017	323,406	0.7%	6,824	0.4%	2.1%
2016	321,040	0.8%	6,794	0.5%	2.1%
2015	318,623	0.8%	6,758	0.7%	2.1%
2014	316,235	0.7%	6,711	0.8%	2.1%
2013	313,993	0.8%	6,660	0.7%	2.1%
2012	311,644	0.7%	6,612	0.7%	2.1%
2011	309,338	0.8%	6,565	0.7%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%

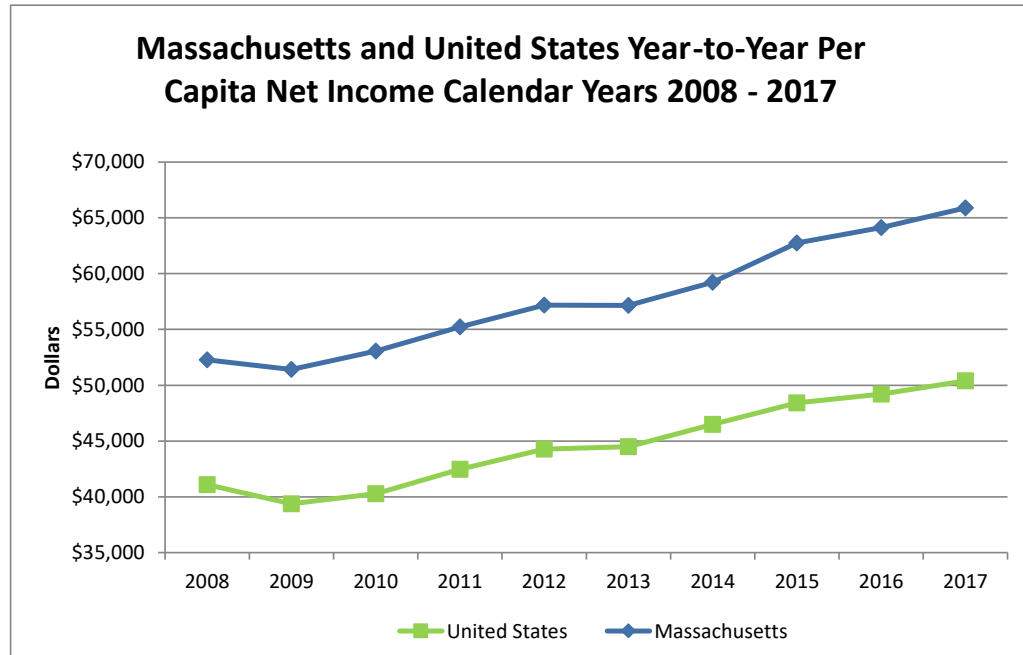
(¹) Population estimates have been restated to most current United States Census Bureau data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau data.



MASSACHUSETTS CLEAN WATER TRUST
Ten Year Schedule of Massachusetts and United States Resident Per Capita Net Income
Calendar Years 2008-2017

Calendar Year	United States ⁽¹⁾	% Change	Massachusetts ⁽¹⁾	% Change	Massachusetts as % of U.S.
2017	\$ 50,392	2.4%	\$ 65,890	2.8%	130.8%
2016	49,204	1.6%	64,122	2.2%	130.3%
2015	48,429	4.2%	62,755	6.0%	129.6%
2014	46,486	4.5%	59,226	3.6%	127.4%
2013	44,489	0.5%	57,145	(0.1)%	128.4%
2012	44,283	4.3%	57,178	3.5%	129.1%
2011	42,463	5.4%	55,230	4.1%	130.1%
2010	40,278	2.3%	53,058	3.2%	131.7%
2009	39,376	(4.2)%	51,412	(1.7)%	130.6%
2008	41,082	3.2%	52,283	3.7%	127.3%

⁽¹⁾ Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released March 22, 2018.



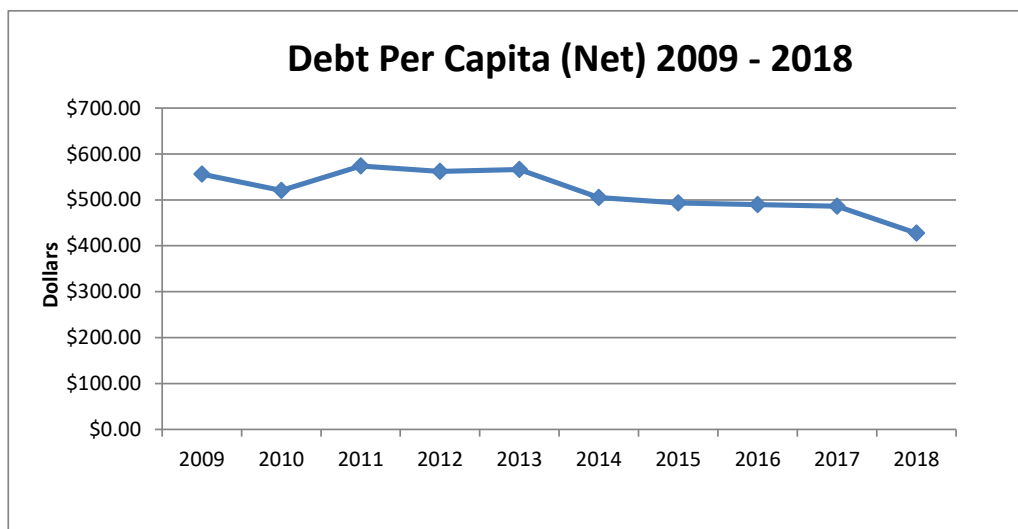
MASSACHUSETTS CLEAN WATER TRUST

Ten Year Schedule of Total Net Debt, Massachusetts Resident Population, and Debt Per Capita For fiscal years ending June 30, 2009 through June 30, 2018

Fiscal Year ending June 30	Total Debt (Net) (in thousands)	Population Estimates ⁽¹⁾ (in thousands)	Debt Per Capita (Net)
2018	\$2,932,678	6,860	\$427.50
2017	3,316,209	6,824	485.96
2016	3,328,202	6,794	489.87
2015	3,332,352	6,758	493.10
2014	3,389,010	6,711	504.99
2013	3,771,008	6,660	566.22
2012	3,715,203 ⁽²⁾	6,612	561.89
2011	3,766,617	6,565	573.74
2010	3,394,046	6,518	520.72
2009	3,597,861	6,469	556.17

(1) Population estimates have been restated using most current United States Census Bureau data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau data.

(2) Implemented GASB 65, Financial Reporting of Deferred Outflows, Deferred Inflows of Resources, and Net Position, resulting in the recognition of certain amounts as deferred inflow/outflow rather than assets/liabilities.



MASSACHUSETTS CLEAN WATER TRUST
Largest Private Sector Massachusetts Employers 2018 and 2009
(Alphabetical Order)

2018			2009		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	General Hospital Corporation	Boston	Hospital
Harvard University	Cambridge	University	Harvard University	Cambridge	University
Massachusetts Institute of Technology	Cambridge	University	Massachusetts Institute of Technology	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Raytheon Company	Lexington	Electronics / Defense
Raytheon Company	Lexington	Electronics / Defense	S & S Credit Company, Inc.	Quincy	Supermarket
The Stop & Shop Supermarkets, Co	Quincy	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
The TJX Companies, Inc.	Framingham	Retail	Tufts University	Boston	University
Tufts University	Boston	University	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	Verizon New England, Inc.	Boston	Telecommunications

Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2018 survey. In addition, CVS Pharmacy, Inc., Home Depot U.S.A., Inc., Target Corp., United Parcel Services, Inc., Wal-Mart Associates, Inc. and Whole Foods Market Group, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.



MASSACHUSETTS
CLEAN WATER TRUST

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