

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT
(For Financial Reporting
A Component Unit of the City of Worcester)
Financial Statements And Required
Supplementary Information
For The Year Ended June 30, 2018
And
Independent Auditors' Reports**

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Financial Statements And Required
Supplementary Information
For The Year Ended June 30, 2018
And
Independent Auditors' Reports**

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McCarthy, Hargrave & Co.

Certified Public Accountants

Board of Directors

Upper Blackstone Water Pollution Abatement District
Millbury, Massachusetts

Independent Auditors' Report

We have audited the accompanying basic financial statements which comprise a business-type activity and a fiduciary fund of the Upper Blackstone Water Pollution Abatement District as of and for the year ended June 30, 2018, and the related notes to the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 business-type activity and fiduciary fund of the Upper Blackstone Water Pollution Abatement District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (on pages 3 through 8) and the schedule of revenues and expenditures – budget and actual information, pension schedules and OPEB schedules (on pages 35 through 40) 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Audit Standards*, we also have issued our report dated November 7, 2018, on our consideration of the Upper Blackstone Water Pollution Abatement District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper Blackstone Water Pollution Abatement District's internal control over financial reporting and compliance.

November 7, 2018

McCarthy, Hargrave & Co.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2018**

As the Engineer-Director/Treasurer of the Upper Blackstone Water Pollution Abatement District, I offer the readers of the Upper Blackstone Water Pollution Abatement District's financial statements this narrative overview and analysis of the financial activities of the Upper Blackstone Water Pollution Abatement District for the year ended June 30, 2018.

Financial Highlights:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,681,867.
- The District's total net position increased \$2,801,649 after the negative adjustment for the implementation of GASB Statement No. 75 of \$2,542,713. This is due primarily to revenue exceeding expenses.
- The District's unrestricted net position (deficit) equals about 1.3% of expenses.
- The District's long-term debt increased net by \$1,079,987 or .7% during the current fiscal year. The key factors in the increase were the proceeds of an interim loan payable of \$8,529,934 offset by the payment of \$7,164,418 in long-term debt principal and bond premium amortization of \$285,529.

Overview of Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Upper Blackstone Water Pollution Abatement District's basic financial statements. The District is a special purpose government engaged in only a business type activity and has a fiduciary fund. As such, its financial statements consist of only those required for enterprise funds, fiduciary funds, and notes to the basic financial statements.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 33 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information, a schedule of revenues and expenditures – budget and actual, pension schedules, and OPEB schedules. The required supplementary information can be found on pages 35 through 40 of this report.

Government Financial Analysis – Business-Type Activity:

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Upper Blackstone Water Pollution Abatement District is improving or deteriorating. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$12,681,867 at the close of the most recent fiscal year.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2018
(Continued)**

Government Financial Analysis-Business-Type Activity (Continued):

The largest portion of the District's net position (103%) reflects its net investment in capital assets (e.g., land, facilities, equipment, intangible assets, and projects in progress). The District uses these capital assets to provide services to its member communities, other non-member government entities and businesses; consequently, these assets are not available for future spending. Although the District's investment in its capital and intangible assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Upper Blackstone Water Pollution Abatement District's Net Position

	2018	2017
Current Assets	\$ 16,182,268	\$ 10,698,012
Other Noncurrent Assets	5,449,247	4,867,260
Capital and Intangible Assets, Net	163,340,995	160,450,833
Total Assets	184,972,510	176,016,105
Deferred Outflows	2,266,260	3,266,578
Long-Term Liabilities Outstanding	160,443,499	162,052,928
Other Liabilities	10,917,053	4,778,186
Total Liabilities	171,360,552	166,831,114
Deferred Inflows	3,196,351	28,638
Net Position:		
Net Investment in Capital Assets	13,038,147	12,833,490
Unrestricted (Deficit)	(356,280)	(410,559)
	\$ 12,681,867	\$ 12,422,931

The increase in net investment in capital assets of \$204,657 occurred because the current year's funding of capital asset acquisitions and debt service exceeded depreciation and amortization expense.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2018
(Continued)**

Government Financial Analysis-Business-Type Activity (Continued):

The decrease in unrestricted net position (deficit) of \$2,596,992 after adjustments for the implementation of GASB Statement No. 75 of \$2,542,713, occurred because revenues exceeded expenses.

Upper Blackstone Water Pollution Abatement District's Changes In Net Position

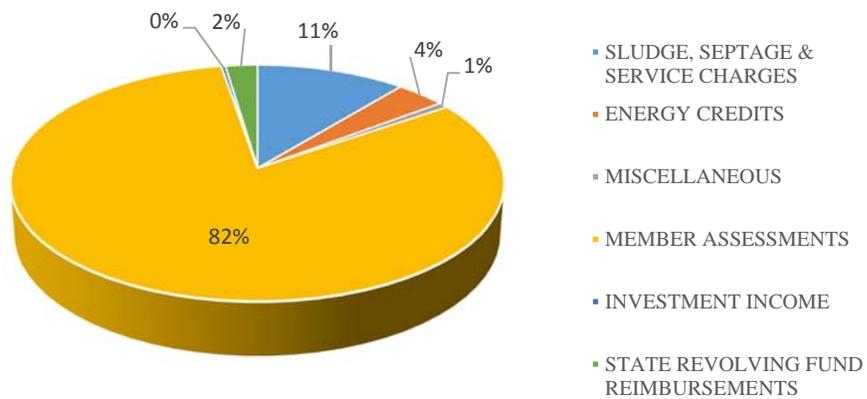
	2018	2017
Revenues:		
Operating Revenues:		
Charges for Services	\$ 3,204,670	\$ 3,036,829
Energy Credits	1,082,767	1,036,956
Miscellaneous	213,293	539,577
	4,500,730	4,613,362
Nonoperating Revenues:		
Member Assessments	23,818,968	23,351,001
Investment Income	87,657	415,309
State Revolving Fund Reimbursements	686,687	1,007,142
	24,593,312	24,773,452
Capital Grant	-	30,000
Total Revenues	29,094,042	29,416,814
Expenses:		
Payroll and Benefits	6,241,720	6,968,401
Electricity	2,486,802	2,731,701
Depreciation and Amortization	7,794,677	9,168,527
Interest Expense	3,991,035	4,177,993
Other Operating Expenses	5,778,159	5,076,444
Total Expenses	26,292,393	28,123,066
Change in Net Position	2,801,649	1,293,748
Net Position, Beginning of Year, as Restated	12,422,931	11,129,183
GASB Statement No. 75 OPEB Liability Adjustment	(2,542,713)	-
Net Position, Beginning of Year, as Restated	9,880,218	11,129,183
Net Position, End of Year	\$ 12,681,867	\$ 12,422,931

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

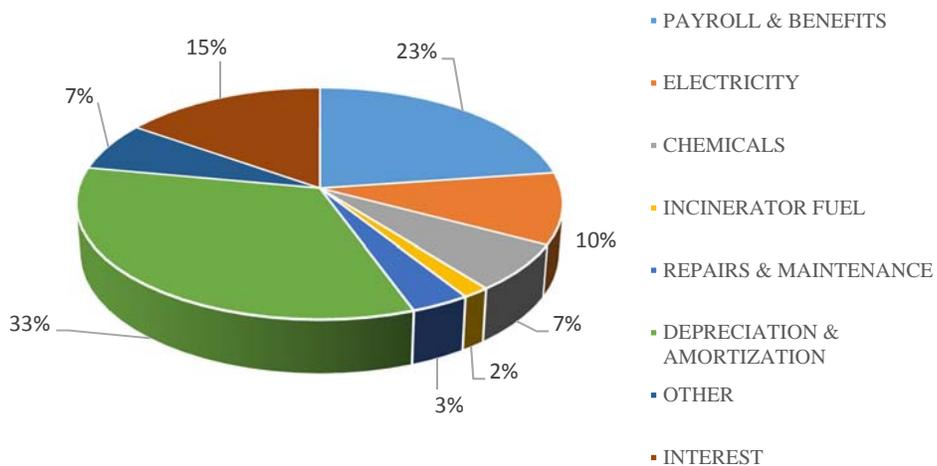
**Management's Discussion And Analysis
For The Year Ended June 30, 2018
(Continued)**

Government Financial Analysis-Business-Type Activity (Continued):

REVENUES



EXPENSES



**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2018
(Continued)**

Government Financial Analysis-Business-Type Activity (Continued):

- Operating revenues decreased by \$112,632 primarily due to a decrease in miscellaneous income.
- Nonoperating revenues decreased by \$180,140 primarily due to decreases in investment income and state revolving fund reimbursements offset by an increase in member assessments.
- Capital revenues decreased by \$30,000.
- Expenses decreased by \$1,830,673 from the previous year. The major reasons are as follows:
 - Payroll and benefits decreased \$726,681 or 10.4%, primarily as a result of the decrease in GASB Statement No. 68 Pension Expense and GASB Statement No. 75 OPEB Expense adjustments of \$827,240.
 - Electricity decreased by \$244,899.
 - Depreciation and amortization decreased \$1,373,850 primarily due to a prior year improvement that was fully depreciated as of June 30, 2017.
 - Total interest expense decreased by \$186,958 or 4.5%.
 - Other operating expenses increased by \$701,715 or 13.8% primarily due to increased chemical costs and repairs and maintenance expenses.

Budgetary Highlights – Business-Type Activity:

The total original budget did not change during fiscal 2018. Overall, revenues were more than the budget by \$ 534,529 and expenditures were less than the budget by \$ 1,257,985, resulting in a budget surplus for the year. Revenues were more than budget primarily due to higher revenues for service, septage and sludge charges and energy credits. Expenditures were less than budget primarily due to lower than anticipated expenses for operations and debt service.

Capital And Intangible Assets And Debt Administration – Business-Type Activity:

Capital And Intangible Assets – The District's investment in capital and intangible assets as of June 30, 2018, amounted to \$163,340,995 (net of depreciation/amortization). This investment in capital assets includes land and improvements, facilities, equipment and other, intangible assets, and projects in progress. The total increase in the District's investment in capital assets was approximately 2%.

The major capital asset events during the current fiscal year were the expenditures for the plant improvements projects, which totaled \$9,948,539 and equipment which totaled \$736,295.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2018
(Continued)**

Capital And Intangible Asset And Debt Administration – Business-Type Activity (Continued):

Capital and Intangible Assets, Net Of Depreciation/Amortization

	2018	2017
Land and Improvements	\$ 701,363	\$ 701,363
Treatment Facilities	145,901,287	153,091,581
Equipment and Other	2,797,795	2,324,270
Intangible Assets	1,712,886	1,887,869
Projects in Process - Construction	12,227,664	2,445,750
Total	\$ 163,340,995	\$ 160,450,833

Additional information on the District's capital assets can be found in Note D to the financial statements.

Long-Term Debt - At the end of the current fiscal year, the District had total debt outstanding of \$151,007,325, which was backed by the full faith and credit of the District.

	2018	2017
Long-Term Debt	\$ 151,007,325	\$ 149,927,338

At June 30, 2018, the District had \$121,468,983 (87%) of its long-term debt issued to the Massachusetts Clean Water Trust. As part of some of the borrowing arrangements, the Trust, if funds are available, will grant a loan subsidy to reduce the actual repayment of debt.

Additional information on the District's long-term debt can be found in Note F to the financial statements.

Economic Factors and Next Year's Budget – Business-Type Activity:

The District's fiscal 2019 budget reflects an increase in budgeted expenditures of \$1,425,179, primarily due to increased operating costs and debt service costs. Budgeted revenues increased by \$361,179 primarily due to increased assessments to members. The budget is balanced by a transfer of \$1,500,000 from available surplus.

Fiduciary Fund:

At the end of fiscal 2018, the District established an Other Postemployment Benefits Trust and deposited \$1,586,773 into the Trust. The fiduciary fund is not reflected in the business-type activity financial statements. The accounting used for the fiduciary fund is much like that used for the business-type activity.

Requests for Information:

This financial report is designed to provide a general overview of the Upper Blackstone Water Pollution Abatement District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Karla H. Sangrey, Engineer-Director/Treasurer, Upper Blackstone Water Pollution Abatement District, 50 Route 20, Millbury, Massachusetts 01527-2199.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Statement of Net Position

June 30, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	8,752,408
Investments		3,149,006
Accounts Receivable		647,213
Accrued Interest Receivable		13,238
Prepaid Expenses		75,116
Due From Massachusetts Clean Water Trust		3,545,287

TOTAL CURRENT ASSETS		16,182,268
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Noncurrent Assets:

Investments		5,449,247
Capital Assets		163,340,995

TOTAL NONCURRENT ASSETS		168,790,242
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TOTAL ASSETS		184,972,510
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DEFERRED OUTFLOW OF RESOURCES		2,266,260
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LIABILITIES

Current Liabilities:

Note Payable		4,350,000
Accounts Payable:		
Operating		664,425
Construction		3,747,927
Accrued Expenses and Amounts Withheld From Employees		408,261
Accrued Interest Payable		1,746,440
Current Portion of Long-Term Debt		17,720,214

TOTAL CURRENT LIABILITIES		28,637,267
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Noncurrent Liabilities:

Net Other Postemployment Benefits Obligation		907,862
Accrued Sick Leave		263,125
Net Pension Liability		8,265,187
Long-Term Debt, Less Portion Included in Current Liabilities		133,287,111

TOTAL NONCURRENT LIABILITIES		142,723,285
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TOTAL LIABILITIES		171,360,552
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DEFERRED INFLOWS OF RESOURCES		3,196,351
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NET POSITION

Net Investment in Capital Assets		13,038,147
Unrestricted (Deficit)		(356,280)
TOTAL NET POSITION		\$ 12,681,867

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Statement Of Revenues, Expenses And Changes In Net Position
For The Year Ended June 30, 2018**

Operating Revenues:	
Sludge Charges	\$ 2,001,917
Septage Charges	982,067
Service Charges	220,686
Energy Credits	1,082,767
Miscellaneous	<u>213,293</u>
Total Operating Revenues	<u>4,500,730</u>
 Operating Expenses:	
Payroll and Benefits	6,241,720
Electricity	2,486,802
Chemicals	2,160,035
Incinerator Fuel	486,712
Repairs and Maintenance	1,185,900
Depreciation and Amortization	7,794,677
Other	<u>1,945,512</u>
Total Operating Expenses	<u>22,301,358</u>
Operating Loss	(17,800,628)
 Nonoperating Revenues (Expense):	
Member Assessments	23,818,968
Investment Income	87,657
State Revolving Fund Reimbursements	686,687
Interest Expense	<u>(3,991,035)</u>
Net Nonoperating Revenues	<u>20,602,277</u>
Change in Net Position	2,801,649
Net Position, Beginning of Year, as Restated	<u>9,880,218</u>
Net Position, End of Year	<u><u>\$ 12,681,867</u></u>

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Statement Of Cash Flows
For Year Ended June 30, 2018**

Cash Flows From Operating Activities:

Cash Received from Customers	\$ 3,562,818
Cash Paid to Vendors	(10,550,555)
Cash Paid to Employees	<u>(4,337,746)</u>

Net Cash Used By Operating Activities (11,325,483)

Cash Flows From Noncapital and Related Financing Activities -

Member Assessments	<u>23,818,968</u>
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Cash Flows From Capital and Related Financing Activities:

Acquisition and Construction of Capital Assets	(8,542,552)
Proceeds From Issuance of Note Payable	4,350,000
Principal Payments on Bonds	(7,164,418)
Interest Expense Paid	(4,282,013)
State Revolving Fund Reimbursements	<u>7,502,526</u>

Net Cash Used by Capital and Related Financing Activities (8,136,457)

Cash Flows from Investing Activities:

Investment Income	270,809
Addition to Investments, Net	<u>(796,664)</u>

Net Cash Used by Investing Activities (525,855)

Net Increase In Cash And Cash Equivalents 3,831,173

Cash and Cash Equivalents At Beginning Of Year 4,921,235

Cash and Cash Equivalents At End Of Year \$ 8,752,408

Noncash Operating and Investing Activities:

Decrease in Fair Value of Investments	<u>\$ 187,247</u>
Energy Credits	<u>\$ 1,082,767</u>

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Statement Of Cash Flows
For The Year Ended June 30, 2018
(Continued)**

Reconciliation Of Operating Loss To Net Cash Used By Operating Activities:

Operating Loss	\$ (17,800,628)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization	7,794,677
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	144,855
(Increase) in Prepaid Expenses	(52,318)
(Decrease) in Accounts Payable	(268,330)
(Decrease) in Accrued Expenses and Amounts Withheld from Employees	(91,136)
(Decrease) in Net Pension Liability	(721,447)
Decrease in Deferred Outflows - Pensions	943,522
Increase in Deferred Inflows - Pensions	378,359
(Decrease) in Net Other Postemployment Benefits Obligation	(4,442,391)
Increase in Deferred Inflows - OPEB	2,789,354
	<hr/>
Net Cash Used By Operating Activities	<u><u>\$ (11,325,483)</u></u>

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Fiduciary Fund – Other Postemployment Benefits

Statement of Net Position

June 30, 2018

Money Market Fund	<u>\$ 1,586,773</u>
Net Position Held in Trust for Other Postemployment Benefits	<u>\$ 1,586,773</u>

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Fiduciary Fund – Other Postemployment Benefits
Statement of Changes in Net Position
For The Year Ended June 30, 2018**

Additions -		
Employer Contributions		\$ 1,668,078
Deductions -		
Benefits		<u>81,305</u>
Net Increase		1,586,773
Net Position Held in Trust for Other Postemployment Benefits:		
Beginning of Year		<u>-</u>
End of Year		<u><u>\$ 1,586,773</u></u>

The accompanying notes are an integral part of the basic financial statements.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018**

A. Summary Of Significant Accounting Policies:

Introduction – The Upper Blackstone Water Pollution Abatement District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The accounting and reporting framework and the more significant accounting principles and practices of the District are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the District’s financial activities for the fiscal year ended June 30, 2018.

Reporting Entity – The Upper Blackstone Water Pollution Abatement District (“District”) was established as a public corporation in accordance with Chapter 752, Acts of 1968 of the General Court, Commonwealth of Massachusetts for the purpose of abating water pollution through treatment of sewage collected from local systems. The District’s area of potential service includes the City of Worcester, the towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury, and West Boylston and all the sewer districts representing a portion of any of the above towns. The City of Worcester and the towns of Auburn, Holden, Millbury, Rutland, West Boylston and the Cherry Valley Sewer District of Leicester are the members of the District.

The District is governed by a Board comprised of representatives of the member communities. Each member community appoints one board member with the City of Worcester board members having a majority vote. The Board appoints an engineer-director/treasurer to manage the day-to-day operations of the District. The District is financed primarily through assessments to member communities and charges for services rendered to non-member communities. For financial reporting purposes only, the District is considered a component unit of the City of Worcester.

Basis Of Accounting And Financial Statement Presentation – The District is a special purpose government engaged only in a business type activity and has a fiduciary fund. As such, its financial statements consist of only those required for enterprise funds, fiduciary funds and notes to the financial statements. The financial statements are prepared on the accrual basis of accounting. Under this method of accounting, expenses are recorded as incurred and revenue is recorded when earned.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing wastewater treatment services to other governmental entities and business entities. The principal operating revenues consist of charges for treating septage and sludge. Operating expenses include payroll and benefits, electricity, chemicals, fuel, repairs and maintenance, and other operating expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deposits And Investments – For purposes of the Statement of Cash Flows, the District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition, which includes deposits with the Massachusetts Municipal Depository Trust.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

A. Summary Of Significant Accounting Policies (Continued):

Deposits And Investments (Continued) – State statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U. S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than ninety days from the date of purchase, certain common stocks and units in the Massachusetts Municipal Depository Trust.

Investments for the District are stated at fair value.

Receivables And Payables – Receivables consist of amounts due from other governmental entities and business entities for charges for wastewater treatment services. All receivables are evaluated for collectability and an allowance for uncollectible is recorded if deemed necessary.

Accounts payable operating consist of amounts due to vendors for operating expenses. Accounts payable construction consist of amounts due for projects in process.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has the following items that qualify for reporting in this category.

Deferred Outflows of Resources:

Pension	\$ 1,816,735
Deferred Charge on Refunding	<u>449,525</u>
Total	<u><u>\$ 2,266,260</u></u>

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category.

Deferred Inflows of Resources:

Pension	\$ 406,997
Other Postemployment Benefits	<u>2,789,354</u>
Total	<u><u>\$ 3,196,351</u></u>

Capital And Intangible Assets – Capital and intangible assets, which include land and improvements, facilities, equipment and other intangible assets, and projects in progress, are recorded at historical cost. Major betterments are capitalized whereas expenditures for maintenance and repairs are expensed as incurred.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

A. Summary Of Significant Accounting Policies (Continued):

Capital and Intangible Assets (Continued)

Depreciation/amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Estimated Lives</u>
Treatment Facilities	20-50 years
Equipment and Other	3-20 years
Intangible Assets	5 years

Vacation Pay – Vacation pay is earned by employees in accordance with the policies covering the particular employee. The cost for vacation pay is recorded as earned.

Accrued Sick Leave – Employees are granted sick leave in varying amounts. In accordance with GASB Statement Number 16, the District records a liability for sick leave benefits that are payable upon retirement.

Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employee Retirement System (MSERS) and additions to deductions from MSERS’s fiduciary net position have been determined on the same basis as they are reported by MSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Net Position – Net Position is divided into two components:

Net Investment in Capital Assets – Consists of the historical cost of capital assets less accumulated depreciation/amortization and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Unrestricted – All other net position is reported in this category.

Accounting Estimates And Assumptions – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, the District’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The District’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. The significant estimates included in these financial statements are the carrying values of investments and capital and intangible assets, as well as the liabilities for other postemployment benefits and pensions.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

A. Summary Of Significant Accounting Policies (Continued):

Budgetary Information – An annual budget is adopted on a basis that differs from generally accepted accounting principles. Appropriations can be carried over at the end of the fiscal year.

B. Deposits And Investments:

Deposits – Custodial Credit Risk – In the case of deposits, this is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District’s policy for custodial credit risk of deposits is to rely on FDIC insurance coverage at each financial institution and collateralization of the balance by the depository institution’s investments.

Short Term Investment – The District invests in units in the Massachusetts Municipal Depository Trust (MMDT). At June 30, 2018, the District’s deposits with MMDT totaled \$5,177,074. The MMDT was established to provide a short-term external investment pool entirely separate from other financial activities of the Commonwealth of Massachusetts. The investment pool measures its investments at amortized cost and there are no restrictions on withdrawals. The State Treasurer serves as the Trustee, and has sole authority pertaining to rules, regulations, and operations of the Trust. A participant’s holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. The MMDT is not rated by any independent fund rating institution and the weighted average maturity of its investments in its Cash Portfolio is less than one year. For a complete copy of MMDT’s separately issued financial statements, the Cash Management Department of the State Treasurer’s Office should be contacted.

Investments Summary:

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2018:

Level 1 – Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Level 2 – Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based upon the securities relationship to benchmark quoted prices.

Level 3 – Unobservable inputs where there is little, if any, market activity.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

B. Deposits And Investments (Continued):

	June 30, 2018	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments By Fair Value Level				
Debt Securities:				
U. S. Agency Obligations	\$ 3,624,407	\$ 3,624,407	\$ -	\$ -
Equity Securities:				
Industrials	411,318	411,318		
Consumer Discretionary	206,204	206,204		
Consumer Staples	1,051,458	1,051,458		
Health Care	1,177,234	1,177,234		
Financial Services	607,742	607,742		
Other	856,847	856,847		
Total Equity Securities	4,310,803	4,310,803	-	-
Total Investments By Fair Value	7,935,210	\$ 7,935,210	\$ -	\$ -
Cash	663,043			
Total Investments	\$ 8,598,253			

At June 30, 2018, the District had a net unrealized gain of \$715,756 on its investments.

Investments (Debt Securities) – Interest Rate Risk – Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment although the maturity value is unaffected. The District’s policies for interest rate risk permit the investment manager discretion to recommend a duration that is pegged at the Barclay’s 1-3 Year Government Index. The portfolio’s duration may be shorter or longer than the benchmark depending upon the investment manager’s interest rate forecast. The index duration currently averages 1.91 years.

Investments – Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure by the custodian, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s securities are in the custody of Fidelity Investments at June 30, 2018. The District’s securities are protected under Securities and Exchange Commission Rule 15c3-3 and additional insurance by the custodian of its securities. As of June 30, 2018, none of the District’s investments were subject to custodial credit risk.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

B. Deposits And Investments (Continued):

Investments – Credit Risk Of Debt Securities – Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will default on its obligations. The District’s policy for credit risk of debt securities restricts investment to debt obligations maintaining a Aaa rating by Moody’s rating service or are full faith obligations of the U. S. Treasury. As of June 30, 2018, the credit quality ratings of the District’s debt securities are as follows:

Quality Rating	U. S. Agencies
Aaa	\$ 3,624,407

Investments – Concentration Of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. Currently, the District instructs its investment manager not to invest more than 5% of the portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U. S. Treasury, U. S. government agencies and money market funds are exempted from this restriction. As of June 30, 2018, the District had no investments with a single issuer that represented 5 percent or more of the District’s total investments.

Investments recorded as current assets are available for operating purposes. Investments recorded as noncurrent assets have been designated as reserved for plant replacement, debt service, and a special reserve for other postemployment benefits.

Investment Summary – OPEB Trust:

The District’s OPEB Trust’s investments consist of a money market fund at June 30, 2018. (See Note H.)

C. Accounts Receivable:

Accounts receivable consist of the following at June 30, 2018:

Septage and Sludge	\$	620,955
Other		26,258
		647,213
Less Allowance for Uncollectibles		-
	\$	647,213

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

D. Capital And Intangible Assets:

Capital and intangible asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and Improvements	\$ 701,363	\$ -	\$ -	\$ 701,363
Depreciated / Amortized Capital Assets:				
Treatment Facilities	254,342,352	67,219		254,409,571
Equipment and Other	6,821,565	835,706		7,657,271
Intangible Assets	2,769,882			2,769,882
	<u>263,933,799</u>	<u>902,925</u>	<u>-</u>	<u>264,836,724</u>
Less Accumulated				
Depreciation / Amortization For:				
Treatment Facilities	101,250,771	7,257,513		108,508,284
Equipment and Other	4,497,295	362,181		4,859,476
Intangible Assets	882,013	174,983		1,056,996
	<u>106,630,079</u>	<u>7,794,677</u>	<u>-</u>	<u>114,424,756</u>
Depreciable/Amortizable Capital Assets, Net	<u>157,303,720</u>	<u>(6,891,752)</u>	<u>-</u>	<u>150,411,968</u>
Projects in Progress:				
Construction	2,445,750	9,948,539	166,625	12,227,664
Capital Assets, Net	<u>\$ 160,450,833</u>	<u>\$ 3,056,787</u>	<u>\$ 166,625</u>	<u>\$ 163,340,995</u>

Plant Improvements:

Most of the District's treatment facilities were updated between 2004 and 2012 as part of a Plant Improvement Program financed primarily via long-term borrowing through the Massachusetts Clean Water Trust and Federal Grants. The District is currently focused on maintaining these assets in good condition and managing repayment of the associated outstanding debt. The District has also been investing in nutrient upgrades in accordance with the May 1, 2014 Administrative Order on Consent (AOC) with the U. S. Environmental Protection Agency (EPA). In August 2016, a proposed modification to the AOC schedule was accepted by EPA. During fiscal 2018, construction of the first phase of Nutrient Upgrade Improvement Projects, Phase A, has been ongoing. Design of the second Phase B is also underway.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

E. Note Payable:

The District issues short-term notes as preliminary financing for major capital additions. Note payable activity for year ended June 30, 2018 was as follows:

	Beginning Balance	Issued	Paid	Ending Balance
Bond Anticipation Note	\$ -	\$ 4,350,000	\$ -	\$ 4,350,000

The note payable is due June 28, 2019 and bears at 3.00%.

F. Long-Term Debt:

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital assets.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The bonds are generally issued as 20-30 year serial bonds with varying amounts of principal maturing each year. The District's last bond rating was AA3.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable	\$ 146,573,401	\$ -	\$ 7,164,418	\$ 139,408,983	\$ 7,447,164
Interim Loan Payable	1,484,682	8,529,934	-	10,014,616	10,014,616
Premium	1,869,255		285,529	1,583,726	258,434
	\$ 149,927,338	\$ 8,529,934	\$ 7,449,947	\$ 151,007,325	\$ 17,720,214

On May 10, 2017, the District received an interim loan of \$25,000,000 at 0% interest from the Massachusetts Clean Water Trust. The loan matures on December 31, 2018. The District draws the funds down as eligible costs are incurred. During fiscal 2018, the Massachusetts Clean Water Trust, under its Affordability Program, granted the District a forgiveness of debt of \$1,157,921 on the first \$10,000,000 of the loan to go to bond which occurred on September 12, 2018.

Bonds Payable consist of the following at June 30, 2018:

1999 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts at an average coupon rate of 5.253% with a final payment due February 1, 2020.	\$140,000
2001 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts at an average coupon rate of 5.098% with a final payment due February 1, 2021.	95,000
2004 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts at an average coupon rate of 2.48% with a final payment due August 1, 2034. The bonds were advance refunded by the Trust during 2007.	32,128,655

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

F. Long-Term Debt (Continued):

2007 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts with interest at 2.345% with a final payment due July 15, 2034.	\$4,251,487
2007 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts with interest at 2.302% with a final payment due July 15, 2036.	18,641,888
2007 General Obligation Refunding Bonds payable in varying principal amounts starting August 1, 2009 until August 1, 2019 at an average coupon rate of 3.934%.	1,705,000
2007 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts with interest at 2.414% with a final payment due July 15, 2037.	8,934,043
2009 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying principal amounts with interest at 2.421% with a final payment due July 15, 2038.	17,833,786
2011 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying annual installments with interest at 2.400% with a final payment due May 1, 2040.	18,040,680
2011 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying annual installments with interest at 2.400% with a final payment due May 1, 2040.	6,013,639
2012 General Obligation Bonds issued to the Massachusetts Clean Water Trust. The bonds are payable in varying annual installments with interest at 2.00% with a final payment due July 15, 2032.	15,689,805
2012 General Obligation Bonds payable in varying annual installments at an average coupon rate of 3.666% with a final payment due April 15, 2032.	3,055,000
2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.000%.	3,310,000
2016 General Obligation refunding Bonds payable in varying principal amounts starting May 1, 2019 until May 1, 2028 at an average coupon rate of 2.331%.	4,990,000
2016 General Obligation Bonds payable in varying principal amounts starting May 1, 2017 until May 1, 2036 at an average coupon rate of 2.782%	<u>4,580,000</u>
Total Long-Term Debt	<u><u>\$139,408,983</u></u>

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

F. Long-Term Debt (Continued):

As part of the borrowing arrangements with the Massachusetts Clean Water Trust, a political subdivision of the Commonwealth of Massachusetts, the Trust will grant, if funds are available, a loan subsidy to reduce the actual repayment of debt. The Trust granted the following loan subsidies for the year ended June 30, 2018:

Principal	\$	26,815
Interest		659,872
		\$ 686,687

The maturity of all of the debt and the related anticipated subsidy is as follows:

Year Ending June 30,	Gross Payments			Anticipated Subsidy	Net Payment
	Principal	Interest	Total		
2019	\$ 7,447,164	\$ 4,066,092	\$ 11,513,256	\$ 674,377	\$ 10,838,879
2020	7,671,904	3,819,963	11,491,867	652,028	10,839,839
2021	6,928,686	3,583,849	10,512,535	610,790	9,901,745
2022	7,101,970	3,358,166	10,460,136	578,284	9,881,852
2023	7,307,393	3,136,577	10,443,970	558,741	9,885,229
2024-2027	35,709,435	12,297,562	48,006,997	2,523,493	45,483,504
2028-2032	37,630,479	6,339,424	43,969,903	1,910,449	42,059,454
2033-2037	24,602,676	1,785,262	26,387,938	671,635	25,716,303
2038-2041	5,009,276	156,271	5,165,547	-	5,165,547
	\$ 139,408,983	\$ 38,543,166	\$ 177,952,149	\$ 8,179,797	\$ 169,772,352

G. Pension Plan:

Plan Description – The Massachusetts State Employees’ Retirement System (MSERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS. MSERS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report.

Management of MSERS is vested in the Massachusetts State Retirement Board (the MSRB) which consists of five members-two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

G. Pension Plan (Continued):

Benefits – MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) established uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member’s age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement age is at 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS’ funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions – Member contributions for MSERS vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975	5% if regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation.
1979 to present	An additional 2% of regular compensation in excess of \$30,000

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the District reported a liability of \$8,265,187 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. The District’s proportion of the net pension liability was based on the District’s share of actual contributions to the pension plan relative to the actual contributions of all participating governmental entities, adjusted for any nonemployer contributions. At June 30, 2017, the District’s proportion was 0.06445 percent, which was a decrease of 0.00072 percent from its proportion measured as of June 30, 2016.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

G. Pension Plan (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2018, the District recognized pension expense of \$ 1,095,968. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 319,566	\$ 224,875
Changes in Assumptions	860,119	-
Differences Between Expected and Actual Earnings on Pension Plan Investments	-	98,480
Changes in Proportionate Share of Contributions	226,078	83,642
District Contributions Subsequent to the Measurement Date	410,972	-
Total	\$ 1,816,735	\$ 406,997

The \$ 410,972 of deferred outflows of resources resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the Plan year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Plan Year Ending June 30,	Amount
2018	\$ 318,360
2019	597,736
2020	259,465
2021	(169,878)
2022	(6,917)
	\$ 998,766

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

G. Pension Plan (Continued):

Actuarial Assumptions – The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females.
 - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females.
 - Disability – reflects a mortality rate that is assumed to be in accordance with RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct).
4. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 2011.

Long-Term Expected Rate of Return – Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

G. Pension Plan (Continued):

Long-Term Expected Rate of Return (Continued):

Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Rate of Return (%)
Global Equity	40.00%	5.00%
Core Fixed Income	12.00%	1.10%
Hedge Funds	0.00%	3.60%
Private Equity	11.00%	6.60%
Real Estate	10.00%	3.60%
Value Added Fixed Income	10.00%	3.80%
Timber/Natural Resources	4.00%	3.20%
Portfolio Completion Strategies	13.00%	3.60%
Total	<u>100.00%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent-point lower (6.5 percent) or 1-percent-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's Proportionate Share of the Net Pension Liability	\$ 11,257,353	\$ 8,265,187	\$ 5,855,605

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

H. Other Postemployment Benefits:

Plan Description: The District provides health and life insurance benefits to retired employees and their survivors through the Commonwealth of Massachusetts Group Insurance Commission (GIC). Specific benefit provisions and contribution rates are established by GIC. All benefits are provided through third party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for the specific plans. The Plan does not issue a stand-alone financial report.

The number of participants as of June 30, 2018, the latest actuarial valuation, is as follows:

Active Employees	56
Retired Employees and Survivors	11
Total	67

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the GIC. Retirees, depending on retirement date, pay either 10% or 15% of the cost. At the end of fiscal 2018, the District established an Other Postemployment Benefits (OPEB) Trust and deposited \$1,586,773 into that trust. The costs of administrating the Plan are paid by the District.

Investment Policy: The assets of the Trust will be invested in a manner consistent with prudent investor standards, set forth on M.G.L., c203C Sec. 2. The assets of the Trust will be managed by a professional investment manager approved by the Board of Directors. A diversified investment portfolio will be constructed that is both prudent and appropriate given the District's actuarial assumed discount rate, target rate of return, investment objective, and risk tolerance. The following is the intended asset allocation:

Category	Target or Range
Domestic Common Stocks	30% to 70%
Domestic Bonds	30% to 70%
Mutual Funds	0% to 30%
Money Market Funds	0% to 30%

The initial deposit of funds near the end of fiscal 2018 was placed in a money market fund. As such, there was no investment return in fiscal 2018.

Actuarial Methods And Assumptions: Projections of benefits for financial reporting purposes are based on the substantive Plan (The Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

**H. Other Postemployment Benefits (Continued):
Actuarial Methods And Assumptions (Continued) –**

The significant methods and assumptions as of the latest actuarial valuation are as follows:

- Interest – Unfunded, 7.25% per year net of investment expenses
- Actuarial Cost Method – Entry age normal
- Medical Care Inflation – 4.5% for 2018 and thereafter
- Amortization Period – 30 year level percent of pay assuming 4.0% increasing, closed basis for prefunding

The mortality rates used for the healthy was the RP-2000 Combined Healthy Table – Projected to 2015 using scale AA and for the disabled, the RP-2000 Combined Healthy Table set forward 2 years.

Discount Rate – The discount rate used to measure the total OPEB liability was 7.25 Percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Net OPEB Liability – The components of the net OPEB liability at June 30, 2018, were as follows:

Total OPEB Liability	\$ 2,494,635
Plan Fiduciary Net Position	<u>1,586,773</u>
Net OPEB Liability	<u>\$ 907,862</u>

Changes in Net OPEB Liability:

Total OPEB Liability	
Service Cost	\$ 223,862
Interest on Liability and Service Cost	193,683
Experience (Gain) and Loss	(1,209,396)
Change in Assumptions	(1,982,462)
Benefit Payments	<u>(81,305)</u>
Net Change in total OPEB Liability	(2,855,618)
Total OPEB Liability - beginning	<u>5,350,253</u>
Total OPEB Liability - ending (a)	<u>\$ 2,494,635</u>
 Plan Fiduciary Net Position	
Contributions - employer	\$ 1,668,078
Benefits Payments	<u>(81,305)</u>
Net Change in the Plan Fiduciary Net Position	1,586,773
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	<u>\$ 1,586,773</u>
 District's Net OPEB Liability (a) - (b)	 <u>\$ 907,862</u>

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

H. Other Postemployment Benefits (Continued):

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the system calculated using the discount rate of 7.25% as well as what the system’s net OPEB liability would be if it were calculated using a discount rate that is 1-percent-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate. The Plan Fiduciary Net Position as a percentage of the Total OPEB Liability is 63.61%.

	1% Decrease	Current Discount Rate	1% Increase
	(6.25%)	(7.25%)	(8.25%)
Net OPEB Liability	\$ 1,220,571	\$ 907,862	\$ 646,961

Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Trends (Continued) –The following presents the net OPEB liability of the Plan calculated using the current trend rates, as well as what the Plan’s net OPEB liability would be if it were calculated using trend rates 1-percentage-point lower for all years or 1 –percentage-point higher than the current rates.

	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	\$ 607,245	\$ 907,862	\$ 1,275,328

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of \$15,041. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -		\$ 1,732,467
Changes in Assumptions	-		1,056,887
Total	\$ -		\$ 2,789,354

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

H. Other Postemployment Benefits (Continued):

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued) –

Amounts reported as deferred outflows of resources and deferred inflows or resources related to OPEB will be recognized in OPEB expense as follows:

2020	\$	(402,504)
2021		(402,504)
2022		(402,504)
2023		(402,504)
2024		(402,504)
2025		(374,330)
		(374,330)
	\$	(2,789,354)

I. Unrestricted Net Position:

Unrestricted net position consists of the following at June 30, 2018:

Designated By Board For:		
Plant Replacement	\$	2,379,356
Debt Reserve		2,499,891
O & M Reserve		570,000
Subsequent Year's Budget		1,500,000
Carryover Encumbrances		475,052
		475,052
Total Designated		7,424,299
Undesignated (Deficit)		(7,780,579)
		(7,780,579)
	\$	(356,280)

J. Contingency – NPDES Permit Administrative Consent Order on Consent:

The District is currently complying with the terms of a May 1, 2014 Administrative Order on Consent (AOC) with the EPA. The AOC is primarily focused on improvements to reduce effluent nitrogen and phosphorus levels. In fiscal 2016 the District completed a Nutrient Facilities Plan and the City of Worcester submitted an Integrated Planning Report for Wet Weather Management. Based on the findings of these studies, the District proposed AOC modifications that were accepted by EPA in fiscal 2017. The revised plan includes a three-phase Nutrient Upgrade project for compliance with NPDES limits for all *dry-weather* flows extending to 2027, and the possibility to adjust the AOC schedule as part of the overall City of Worcester Integrated Water Resources Management Plan. The first of the three-phase projects, Phase A, is currently under construction at a cost of approximately \$25 million, with completion expected in early fiscal 2020. The second project, Phase B, is under design with construction to begin in 2021. The total cost of the upgrades for nutrient facilities was estimated in the Nutrient Facilities Plan at \$140 to \$160 million. The outcome of the Worcester integrated planning should include proposed projects, associated costs and a prioritized schedule for implementation based on environmental benefit and ratepayer affordability.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2018
(Continued)**

K. Implementation of GASB Pronouncements:

Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was implemented during fiscal 2018. The primary objective of this statement was to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB). The recording of the net liability of the OPEB plan covering the District's employees resulted in the following adjustment:

Net Position at July 1, 2017	\$ 12,422,931
Change in reporting of OPEB Plan	<u>(2,542,713)</u>
Net Position at July 1, 2017, as restated	<u><u>\$ 9,880,218</u></u>

Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented during fiscal 2018. The District does not believe the implementation of this statement will have any effect on its basic financial statements.

Statement #84, *Fiduciary Activities*, which is required to be implemented during fiscal 2020 was implemented during fiscal 2018. The implementation resulted in the District reporting fiduciary fund activities within its basic financial statements.

Statement #85, *Omnibus 2017*, which was required to be implemented during fiscal 2018. The implementation of this statement had no effect on the District's basic financial statements.

Statement #86, *Certain Debt Extinguishment Issues*, which was required to be implemented during fiscal 2018. The implementation of this statement had no effect on the District's basic financial statements.

L. Future Implementation of GASB Pronouncements:

Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal 2019. The District is currently evaluating the effect that this statement will have on its basic financial statements.

Statement #87, *Leases*, which is required to be implemented during fiscal 2021. The District is currently evaluating the effect that this statement will have on its basic financial statements.

Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, which is required to be implemented during fiscal 2019. The District is currently evaluating the effect that this statement will have on its basic financial statements.

Statement #89, *Accounting for Interest Cost incurred before the end of a Construction Period*, which is required to be implemented during fiscal 2021. The District is currently evaluating the effect that this statement will have on its basic financial statements.

Statement #90, *Majority Equity Interests*, which is required to be implemented during fiscal 2020. The District is currently evaluating the effect that this statement will have on its basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

REQUIRED SUPPLEMENTARY INFORMATION

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

Schedule Of Revenues And Expenditures – Budget And Actual

For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variances Positive (Negative)
Revenues				
Member Assessments	\$23,818,968	\$23,818,968	\$23,818,968	-
Service, Septage and Sludge Charges	2,725,241	2,725,241	3,204,670	479,429
Investment and Other Income	1,195,700	1,195,700	1,250,800	55,100
State Grants	694,975	694,975	694,975	-
Transfer from Unreserved Fund	436,000	436,000	436,000	-
Total Revenues	28,870,884	28,870,884	29,405,413	534,529
Expenditures				
Operations	7,978,836	7,978,836	7,619,766	359,070
Maintenance	4,093,235	4,093,235	4,051,665	41,570
Administration	2,263,519	2,263,519	2,209,290	54,229
Laboratory and Pretreatment	950,065	950,065	907,476	42,589
Debt Service	12,107,889	12,107,889	11,347,362	760,527
Transfer to Reserves	1,770,000	1,770,000	1,770,000	-
Total Expenditures	29,163,544	29,163,544	27,905,559	1,257,985
Operating Income (Loss)	(292,660)	(292,660)	1,499,854	1,792,514
Budgetary Fund Balance, Beginning of Year	292,660	292,660	292,660	-
Budgetary Fund Balance, End of Year	\$ -	\$ -	\$1,792,514	\$1,792,514

See notes to Schedule of Revenues and Expenditures - Budget and Actual

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

Notes To Schedule Of Revenues And Expenditures – Budget And Actual

For The Year Ended June 30, 2018

Budgetary Basis Of Accounting:

Pursuant to the Massachusetts General Laws, the District adopts an annual budget for all of its activities.

All portions of the annual budget are prepared under the direction of the Engineer-Director/Treasurer. The budget must be approved by the Board of Directors.

In fiscal 2018, the total original budget was not changed.

The District’s annual budget is prepared on a basis other than GAAP. The “actual” results column of the schedule of revenues and expenditures is presented on a “budgetary basis” to provide a meaningful comparison with the budget.

The following reconciliations summarize the difference between budgetary and GAAP – Basis accounting principles for the year ended June 30, 2018.

Notes to Schedule of Revenues and Expenditures - Budget and Actual

	Revenue	Expenditures
Per Statement of Revenues, Expenses and Changes in		
Net Position	\$ 29,094,042	\$ 26,292,393
Adjustments:		
Eliminate Depreciation and Amortization		(7,794,677)
Eliminate Amortization of Deferred Refunding Charge		(56,797)
Add Principal Payments on Bonds		7,164,418
Adjust State Revolving Fund Reimbursements and		
Interest Expense to Cash Basis	8,288	62,246
Add Capital Items		736,301
Eliminate Nonbudgeted Grant	(48,355)	(48,355)
Add Transfer to Reserves		1,770,000
Add Transfer from Unreserved Fund	436,000	
Eliminate GASB Stmt.#75 Adjustment		465,026
Eliminate GASB Stmt.#68 Adjustment	(84,562)	(684,996)
	\$ 29,405,413	\$ 27,905,559
Per Above Schedule		

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability	0.06445%	0.06517%	0.06237%	0.0291%
District's Proportionate Share of the Net Pension Liability	\$ 8,265,187	\$ 8,986,634	\$ 7,099,775	\$ 4,670,154
District's Covered-Employee Payroll	\$ 3,678,070	\$ 3,630,096	\$ 3,413,667	\$ 3,245,825
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	224.72%	247.56%	207.98%	143.88%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	67.21%	63.48%	67.87%	76.32%

*The amounts present were determined as of the previous June 30.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

Schedule of the District's Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 419,300	\$ 413,831	\$ 389,158	\$ 370,024
Contributions in Relation to the Contractually Required Contributions	<u>(419,300)</u>	<u>(413,831)</u>	<u>(389,158)</u>	<u>(370,024)</u>
Contributions Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 3,678,070	\$ 3,630,096	\$ 3,413,667	\$ 3,245,825
Contributions as a Percentage of Covered- Employee Payroll	11.40%	11.40%	11.40%	11.40%

*The amounts presented were determined as of the previous June 30.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Notes to Required Pension Supplementary Information

For the Year ended June 30, 2018

Changes of Assumptions – Amounts reported as of June 30, 2015 reflect a change in the discount rate to 7.50 percent from 8.00 percent used in the prior year. In addition, for amounts reported as of June 30, 2015, the expectation of mortality was based on the RP-2000 Mortality Tables projected generationally with Scale BB and a base year of 2009 rather than the Scale AA Table. For disability retirement as of June 30, 2015, the expectation of mortality was based on the RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2015 rather than the Scale AA Table set forward 3 years for males.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

OPEB Schedules

Schedule of OPEB Net Liability

For The Year Ended June 30, 2018

Schedule of Changes in Net OPEB Liability

Total OPEB Liability	
Service Cost	\$ 223,862
Interest on Liability and Service Cost	193,683
Experience (Gain) and Loss	(1,209,396)
Change in Assumptions	(1,982,462)
Benefit Payments	(81,305)
Net Change in total OPEB Liability	(2,855,618)
Total OPEB Liability - beginning	5,350,253
Total OPEB Liability - ending (a)	<u>\$ 2,494,635</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 1,668,078
Benefits Payments	(81,305)
Net Change in Plan Fiduciary Net Position	1,586,773
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	<u>\$ 1,586,773</u>
Distict's Net OPEB Liability (a) - (b)	<u>\$ 907,862</u>

Schedule of OPEB Net Liability

Total OPEB Liability	\$ 2,494,635
Plan Fiduciary Net Position	<u>1,586,773</u>
Net OPEB Liability	<u>\$ 907,862</u>
Plan Fiduciary Net Position as a Percentage of the Total Liability	63.61%
Covered Payroll	\$ 3,707,317
Net Liability as a Percentage of Covered Payroll	24.49%

Note - In fiscal 2018, the District changed the discount rate to 7.25% from 3.5% that was used in fiscal 2017 due to establishment of a trust and the level of pre-funding that was made.



McCarthy, Hargrave & Co.

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors

**Upper Blackstone Water Pollution Abatement District
Millbury, Massachusetts**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Upper Blackstone Water Pollution Abatement District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Upper Blackstone Water Pollution Abatement District's basic financial statements, and have issued our report thereon dated November 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Blackstone Water Pollution Abatement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 7, 2018

McCarthy, Hargrave & Co.