

**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, 2019
And
Independent Auditors' Reports**

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Financial Statements And Required
Supplementary Information
For The Year Ended June 30, 2019
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, 2019, 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, 2019, 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 9) and the schedule of revenues and expenditures – budget and actual information, pension schedules and OPEB schedules (on pages 37 through 42) 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 October 11, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

October 11, 2019

McCarthy, Hargrave & Co.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2019**

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, 2019.

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 \$ 16,949,102.
- The District's total net position increased \$ 4,267,235. This is due primarily to revenue exceeding expenses.
- The District's unrestricted net position equals about 6% of expenses.
- The District's long-term debt decreased net by \$ 9,236,024 or 6% during the current fiscal year. The key factors in the decrease were the payment of \$ 7,804,835 in long-term debt principal, a state grant for forgiveness of principal of \$ 1,157,921, bond premium amortization of \$ 258,652 and a reclassification to short-term debt \$ 14,616.

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 16 through 35 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 36 through 41 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 \$ 16,949,102 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, 2019
(Continued)**

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

The largest portion of the District's net position (90%) 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

	2019	2018
Current Assets	\$ 9,889,788	\$ 16,182,268
Other Noncurrent Assets	7,719,247	5,449,247
Capital and Intangible Assets, Net	175,935,974	163,340,995
Total Assets	193,545,009	184,972,510
Deferred Outflows	3,916,846	2,266,260
Long-Term Liabilities Outstanding	153,124,475	160,443,499
Other Liabilities	24,298,530	10,917,053
Total Liabilities	177,423,005	171,360,552
Deferred Inflows	3,089,748	3,196,351
Net Position:		
Net Investment in Capital Assets	15,324,474	13,038,147
Unrestricted (Deficit)	1,624,628	(356,280)
	\$ 16,949,102	\$ 12,681,867

The increase in net investment in capital assets of \$ 2,286,327 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, 2019
(Continued)**

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

The increase in unrestricted net position of \$ 1,980,908 occurred because revenues exceeded expenses.

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

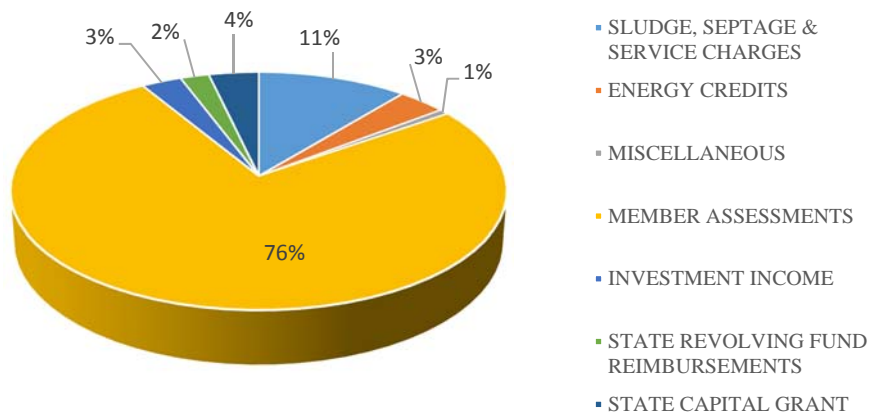
	<u>2019</u>	<u>2018</u>
Revenues:		
Operating Revenues:		
Charges for Services	\$ 3,481,316	\$ 3,204,670
Energy Credits	1,136,150	1,082,767
Miscellaneous	225,613	213,293
	<u>4,843,079</u>	<u>4,500,730</u>
Nonoperating Revenues:		
Member Assessments	24,056,467	23,818,968
Investment Income	931,431	87,657
State Revolving Fund Reimbursements	665,158	686,687
	<u>25,653,056</u>	<u>24,593,312</u>
Capital Grant	<u>1,157,921</u>	<u>-</u>
Total Revenues	<u>31,654,056</u>	<u>29,094,042</u>
Expenses:		
Payroll and Benefits	6,927,586	6,241,720
Electricity	2,877,743	2,486,802
Depreciation and Amortization	7,892,264	7,794,677
Interest Expense	4,037,221	3,991,035
Other Operating Expenses	5,652,007	5,778,159
Total Expenses	<u>27,386,821</u>	<u>26,292,393</u>
Change in Net Position	<u>4,267,235</u>	<u>2,801,649</u>
Net Position, Beginning of Year, as Restated	12,681,867	12,422,931
GASB Statement No. 75 OPEB Liability Adjustment	<u>-</u>	<u>(2,542,713)</u>
Net Position, Beginning of Year, as Restated	<u>12,681,867</u>	<u>9,880,218</u>
Net Position, End of Year	<u>\$ 16,949,102</u>	<u>\$ 12,681,867</u>

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

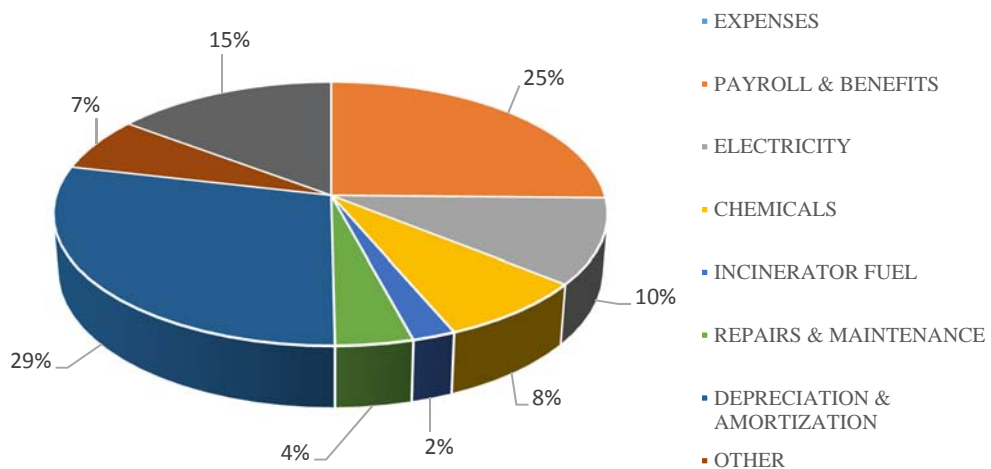
**Management's Discussion And Analysis
For The Year Ended June 30, 2019
(Continued)**

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, 2019
(Continued)**

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

- Operating revenues increased by \$ 342,349 primarily due to increases in charges for services and energy credit income.
- Nonoperating revenues increased by \$ 1,059,744 primarily due to increases in investment income and member assessments.
- Capital revenues increased by \$ 1,157,921 due to a forgiveness of debt grant from the Massachusetts Clean Water Trust.
- Expenses increased by \$ 1,094,428 from the previous year. The major reasons are as follows:
 - Payroll and benefits increased \$ 685,866 or 11%, primarily as a result of an increase in personnel.
 - Electricity increased by \$ 390,941.
 - Depreciation and amortization increased \$ 97,587.
 - Interest expense increased by \$ 46,186 or 1.2%.
 - Other operating expenses decreased by \$ 126,152 or 2.2% primarily due to decreased repairs and maintenance and professional services expenses partially offset by increased incinerator fuel expenses.

Budgetary Highlights – Business-Type Activity:

The total original budget did not change during fiscal 2019. Overall, revenues were more than the budget by \$ 1,554,974 and expenditures were less than the budget by \$ 370,439, resulting in a budget surplus for the year. Revenues were more than budget primarily due to higher revenues for service, septage and sludge charges, investments and energy credits. Expenditures were less than budget primarily due to lower than anticipated expenses for 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, 2019, amounted to \$ 175,935,974 (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 7.7%.

The major capital asset events during the current fiscal year were the expenditures for the plant improvements projects, which totaled \$ 19,233,779 and equipment which totaled \$ 1,142,783.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2019
(Continued)**

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

Capital and Intangible Assets, Net Of Depreciation/Amortization

	2019	2018
Land and Improvements	\$ 724,863	\$ 701,363
Treatment Facilities	138,740,647	145,901,287
Equipment and Other	3,471,118	2,797,795
Intangible Assets	1,537,903	1,712,886
Projects in Progress - Construction	31,461,443	12,227,664
Total	\$ 175,935,974	\$ 163,340,995

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

Short-Term Debt – The District issues short-term notes as preliminary financing for major capital additions. At June 30, 2019, the District had \$ 19,208,726 in short-term debt outstanding. Additional information on the District's short-term debt can be found in Note E to the financial statements.

Long-Term Debt - At the end of the current fiscal year, the District had total debt outstanding of \$ 141,771,301, which was backed by the full faith and credit of the District.

	2019	2018
Long-Term Debt	\$ 141,771,301	\$ 151,007,325

At June 30, 2019, the District had \$ 125,066,227 (88%) 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 2020 budget reflects an increase in budgeted expenditures of \$ 1,247,082 primarily due to increased operating costs and debt service costs. Budgeted revenues increased by \$ 977,082 primarily due to increased assessments to members. The budget is balanced by a transfer from available surplus of \$ 1,770,000.

Fiduciary Fund:

The District has established an Other Postemployment Benefits Trust and invested \$ 2,140,592 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.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Management's Discussion And Analysis
For The Year Ended June 30, 2019
(Continued)**

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, 2019

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	2,902,614
Investments		3,951,396
Accounts Receivable		856,739
Accrued Interest Receivable		23,765
Prepaid Expenses		74,274
Due From Massachusetts Clean Water Trust		2,081,000

TOTAL CURRENT ASSETS		9,889,788
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Noncurrent Assets:

Investments		7,719,247
Capital and Intangible Assets, Net		175,935,974

TOTAL NONCURRENT ASSETS		183,655,221
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TOTAL ASSETS		193,545,009
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DEFERRED OUTFLOWS OF RESOURCES		3,916,846
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LIABILITIES

Current Liabilities:

Notes Payable		19,208,726
Accounts Payable:		
Operating		661,576
Construction		2,252,296
Accrued Expenses and Amounts Withheld From Employees		460,937
Accrued Interest Payable		1,714,995
Current Portion of Long-Term Debt		8,266,616

TOTAL CURRENT LIABILITIES		32,565,146
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Noncurrent Liabilities:

Net Other Postemployment Benefits Obligation		2,792,977
Accrued Sick Leave		263,403
Net Pension Liability		8,296,794
Long-Term Debt, Less Portion Included in Current Liabilities		133,504,685

TOTAL NONCURRENT LIABILITIES		144,857,859
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TOTAL LIABILITIES		177,423,005
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DEFERRED INFLOWS OF RESOURCES		3,089,748
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NET POSITION

Net Investment in Capital Assets		15,324,474
Unrestricted		1,624,628

TOTAL NET POSITION	\$	16,949,102
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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, 2019**

Operating Revenues:	
Sludge Charges	\$ 2,028,190
Septage Charges	1,192,452
Service Charges	260,674
Energy Credits	1,136,150
Miscellaneous	<u>225,613</u>
Total Operating Revenues	<u>4,843,079</u>
Operating Expenses:	
Payroll and Benefits	6,927,586
Electricity	2,877,743
Chemicals	2,142,942
Incinerator Fuel	604,174
Repairs and Maintenance	1,089,005
Depreciation and Amortization	7,892,264
Other	<u>1,815,886</u>
Total Operating Expenses	<u>23,349,600</u>
Operating Loss	(18,506,521)
Nonoperating Revenues (Expense):	
Member Assessments	24,056,467
Investment Income	931,431
State Revolving Fund Reimbursements	665,158
Interest Expense	<u>(4,037,221)</u>
Net Nonoperating Revenues	<u>21,615,835</u>
Capital Activity -	
State Capital Grant	<u>1,157,921</u>
Change in Net Position	4,267,235
Net Position, Beginning of Year	<u>12,681,867</u>
Net Position, End of Year	<u><u>\$ 16,949,102</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, 2019**

Cash Flows From Operating Activities:

Cash Received from Customers	\$ 3,497,403
Cash Paid to Vendors	(9,652,902)
Cash Paid to Employees	<u>(4,545,075)</u>

Net Cash Provided By Operating Activities (10,700,574)

Cash Flows From Noncapital and Related Financing Activities -

Member Assessments	<u>24,056,467</u>
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Cash Flows From Capital and Related Financing Activities:

Acquisition and Construction of Capital Assets	(21,982,874)
Principal Payments on Bonds	(7,804,835)
Interest Expense Paid	(4,240,048)
State Revolving Fund Reimbursements and Loans	<u>16,973,556</u>

Net Cash Used by Capital and Related Financing Activities (17,054,201)

Cash Flows from Investing Activities:

Investment Income	413,404
Addition to Investments, Net	<u>(2,564,890)</u>

Net Cash Used by Investing Activities (2,151,486)

Net Decrease In Cash And Cash Equivalents (5,849,794)

Cash and Cash Equivalents At Beginning Of Year 8,752,408

Cash and Cash Equivalents At End Of Year \$ 2,902,614

Noncash Operating and Investing Activities:

Increase in Fair Value of Investments	<u>\$ 507,500</u>
Energy Credits	<u>\$ 1,136,150</u>
State Capital Grant	<u>\$ 1,157,921</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, 2019
(Continued)**

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

Operating Loss	\$ (18,506,521)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization	7,892,264
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(209,526)
Decrease in Prepaid Expenses	842
(Decrease) in Accounts Payable	(2,849)
Increase in Accrued Expenses and Amounts Withheld from Employees	52,954
Increase in Net Pension Liability	31,607
Decrease in Deferred Outflows - Pensions	132,404
Increase in Deferred Inflows - Pensions	273,408
Increase in Net Other Postemployment Benefits Obligation	1,885,115
(Increase) in Deferred Outflows - OPEB	(1,870,261)
(Decrease) in Deferred Inflows - OPEB	<u>(380,011)</u>
Net Cash Used By Operating Activities	<u>\$ (10,700,574)</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, 2019

Assets:

Investments:	
U.S. Agency Obligations	\$ 254,533
Equity Securities	756,106
Floating Rate High Income Fund	442,531
Money Market Fund	<u>687,422</u>
Total Investments	<u>2,140,592</u>
Accrued Interest Receivable	<u>1,739</u>
Total Assets	<u><u>\$ 2,142,331</u></u>
Net Position Held in Trust for Other Postemployment Benefits	<u><u>\$ 2,142,331</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 Changes in Net Position
For The Year Ended June 30, 2019**

Additions:

Employer Contributions	<u>\$ 626,536</u>
Investment Income:	
Interest and Dividends	32,710
Net Depreciation in Fair Value of Investments	<u>(1,914)</u>
	30,796
Less Investment Expenses	<u>(2,680)</u>
Net Investment Income	<u>28,116</u>
Total Additions	<u>654,652</u>

Deductions -

Benefits	<u>99,094</u>
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Net Increase

555,558

Net Position Held in Trust for Other Postemployment Benefits:

Beginning of Year	<u>1,586,773</u>
End of Year	<u><u>\$ 2,142,331</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, 2019**

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, 2019.

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, 2019
(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 and OPEB trust 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 uncollectibles 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	\$	1,684,330
Other Postemployment Benefits		1,870,261
Deferred Charge on Refunding		<u>362,255</u>
Total	\$	<u><u>3,916,846</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	\$	680,405
Other Postemployment Benefits		<u>2,409,343</u>
Total	\$	<u><u>3,089,748</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, 2019
(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>Assests</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, 2019
(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, 2019, the District’s deposits with MMDT totaled \$ 658,944. 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 – District Investments:

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, 2019:

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, 2019
(Continued)**

B. Deposits And Investments (Continued):

	June 30, 2019	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments By Fair Value Level				
Debt Securities:				
U. S. Agency Obligations	\$ 5,685,123	\$ 5,685,123	\$ -	\$ -
Equity Securities:				
Industrials	657,098	657,098		
Consumer Discretionary	267,881	267,881		
Consumer Staples	1,547,966	1,547,966		
Health Care	1,585,951	1,585,961		
Financial Services	744,837	744,837		
Utilities	525,328	525,328		
Other	538,981	538,981		
Total Equity Securities	5,868,042	5,868,052	-	-
Total Investments By Fair Value	11,553,165	\$ 11,553,175	\$ -	\$ -
Cash	117,478			
Total Investments	\$ 11,670,643			

At June 30, 2019, the District had a net unrealized gain of \$ 1,223,256 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, 2019. 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, 2019, 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, 2019
(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, 2019, the credit quality ratings of the District’s debt securities are as follows:

<u>Quality Rating</u>	<u>U. S. Agencies</u>
Aaa	\$ <u>5,685,123</u>

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, 2019, 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 reserves for various purposes.

Investment Summary – OPEB Trust:

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust has the following recurring fair value measurements as of June 30, 2019:

- 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, 2019
(Continued)**

B. Deposits And Investments (Continued):

Investment Summary – OPEB Trust (Continued):

	June 30, 2019	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments By Fair Value Level				
Debt Securities:				
U. S. Agency Obligations	\$ 254,533	\$ 254,533	\$ -	\$ -
Equity Securities:				
Energy	41,298	41,298		
Materials	17,019	17,019		
Industrials	80,514	80,514		
Consumer Discretionary	67,400	67,400		
Consumer Staples	60,917	60,917		
Health Care	116,737	116,737		
Financial Services	95,445	95,445		
Information Technology	147,579	147,579		
Real Estate	24,607	24,607		
Communication Services	84,417	84,417		
Utilities	20,173	20,173		
Total Equity Securities	756,106	756,106	-	-
Total Investments By Fair Value	1,010,639	\$ 1,010,639	\$ -	\$ -
Floating Rate High Income Fund	442,531			
Cash	687,422			
Total Investments	\$ 2,140,592			

At June 30, 2019, the Trust had a Net Unrealized Gain of \$ 653 on its investments.

C. Accounts Receivable:

Accounts receivable consist of the following at June 30, 2019:

Septage and Sludge	\$ 748,360
Other	108,379
	856,739
Less Allowance for Uncollectibles	-
	\$ 856,739

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(Continued)**

D. Capital And Intangible Assets:

Capital and intangible asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and Improvements	\$ 701,363	\$ 23,500	\$ -	\$ 724,863
Depreciated / Amortized Capital Assets:				
Treatment Facilities	254,409,571	87,181		254,496,752
Equipment and Other	7,657,271	1,142,783		8,800,054
Intangible Assets	2,769,882			2,769,882
	<u>264,836,724</u>	<u>1,229,964</u>	<u>-</u>	<u>266,066,688</u>
Less Accumulated				
Depreciation / Amortization For:				
Treatment Facilities	108,508,284	7,247,821		115,756,105
Equipment and Other	4,859,476	469,460		5,328,936
Intangible Assets	1,056,996	174,983		1,231,979
	<u>114,424,756</u>	<u>7,892,264</u>	<u>-</u>	<u>122,317,020</u>
Depreciable/Amortizable Capital Assets, Net	<u>150,411,968</u>	<u>(6,662,300)</u>	<u>-</u>	<u>143,749,668</u>
Projects in Progress:				
Construction	12,227,664	19,233,779		31,461,443
Capital Assets, Net	<u>\$ 163,340,995</u>	<u>\$ 12,594,979</u>	<u>\$ -</u>	<u>\$ 175,935,974</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, the first phase of Nutrient Upgrade Improvement Projects, Phase A, was put into operation. Design of the Phase B nutrient improvements was completed this fiscal year.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(Continued)**

E. Notes Payable:

The District issues short-term notes as preliminary financing for major capital additions. Notes payable activity for year ended June 30, 2019 was as follows:

	Beginning Balance	Issued	Paid	Ending Balance
Massachusetts Clean Water Trust Interim Loan	\$ -	\$ 14,858,726	\$ -	\$ 14,858,726
Bond Anticipation Note	4,350,000	4,350,000	4,350,000	4,350,000
	\$ 4,350,000	\$ 19,208,726	\$ 4,350,000	\$ 19,208,726

The bond anticipation note payable is due December 13, 2019 and bears at 2.75%. The Massachusetts Clean Water Trust Interim Loan with interest at 0% will become a bond on October 22, 2019.

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	\$ 139,408,983	\$ 8,842,079	\$ 7,804,835	\$ 140,446,227	\$ 8,037,348
Interim Loan Payable	10,014,616		10,014,616	-	-
Premium	1,583,726		258,652	1,325,074	229,268
	\$ 151,007,325	\$ 8,842,079	\$ 18,078,103	\$ 141,771,301	\$ 8,266,616

In fiscal 2017, the District received an interim loan of \$ 26,157,921 at 0% interest from the Massachusetts Clean Water Trust. 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, 2019:

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.	\$ 70,000
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.	65,000
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.	30,739,046

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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.	\$ 4,045,541
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.	17,850,647
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%.	870,000
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.	8,582,307
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.	17,174,279
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.	17,445,789
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.	5,815,368
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.	14,793,842
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.	2,885,000
2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.000%.	2,715,000
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%.	4,540,000
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%.	4,370,000
2019 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 January 15, 2038.	8,484,408
Total Long-Term Debt	<u>\$ 140,446,227</u>

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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, 2019:

Principal	\$	28,385
Interest		636,773
	\$	665,158

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		
2020	\$ 8,037,348	\$ 3,989,651	\$ 12,026,999	\$ 652,028	\$ 11,374,971
2021	7,302,073	3,746,228	11,048,301	610,790	10,437,511
2022	7,483,472	3,513,077	10,996,549	578,284	10,418,265
2023	7,697,186	3,283,859	10,981,045	558,741	10,422,304
2024	7,157,682	3,051,964	10,209,646	539,417	9,670,229
2025-2029	38,241,889	11,693,489	49,935,378	2,421,426	47,513,952
2030-2034	39,534,587	5,568,219	45,102,806	1,823,259	43,279,547
2035-2039	22,334,649	1,372,459	23,707,108	321,778	23,385,330
2040-2041	2,657,341	64,159	2,721,500		2,721,500
	\$ 140,446,227	\$ 36,283,105	\$ 176,729,332	\$ 7,505,723	\$ 169,223,609

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, 2019
(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, 2019, the District reported a liability of \$ 8,296,794 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the District’s proportion was 0.06271 percent, which was a decrease of 0.00174% from its proportion measured as of June 30, 2017.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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, 2019, the District recognized pension expense of \$ 1,042,457. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 263,104	\$ 169,089
Changes in Assumptions	840,829	-
Differences Between Expected and Actual Earnings on Pension Plan Investments	-	288,388
Changes in Proportionate Share of Contributions	137,858	222,928
District Contributions Subsequent to the Measurement Date	<u>442,539</u>	
Total	<u>\$ 1,684,330</u>	<u>\$ 680,405</u>

The \$ 442,539 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Plan Year Ending in June 30,</u>	<u>Amount</u>
2019	\$ 444,595
2020	199,512
2021	(111,555)
2022	6,514
2023	<u>22,320</u>
	<u>\$ 561,386</u>

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(Continued)**

G. Pension Plan (Continued):

Actuarial Assumptions – The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018. This valuation used the following assumptions:

1. (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$ 13,000 of allowance each 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 – the mortality rate reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016, set forward 1 year.
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, 2019
(Continued)**

G. Pension Plan (Continued):

Long-Term Expected Rate of Return (Continued):

Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Rate of Return (%)
Global Equity	39.00%	5.00%
Core Fixed Income	12.00%	0.90%
Private Equity	12.00%	6.60%
Real Estate	10.00%	3.80%
Value Added Fixed Income	10.00%	3.80%
Timber/Natural Resources	4.00%	4.00%
Portfolio Completion Strategies	13.00%	3.70%
Total	<u>100.00%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.35%. 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 7.35 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 (6.35 percent) or 1-percent-point higher (8.35 percent) than the current rate:

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
District's Proportionate Share of the Net Pension Liability	\$ 11,182,691	\$ 8,296,794	\$ 5,830,906

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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, 2019, the latest actuarial valuation, is as follows:

Active Employees	59
Retired Employees and Survivors	<u>32</u>
Total	<u><u>91</u></u>

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. The costs of administering 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 weighted average investment return for fiscal 2019 was 1.72%.

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, 2019
(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 2019 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, 2019, were as follows:

Total OPEB Liability	\$	4,935,308
Plan Fiduciary Net Position		2,142,331
Net OPEB Liability	\$	2,792,977

Changes in Net OPEB Liability:

Total OPEB Liability		
Service Cost	\$	120,295
Interest on Liability and Service Cost		186,053
Experience (Gain) and Loss		1,939,148
Change in Assumptions		294,271
Benefit Payments		(99,094)
Net Change in total OPEB Liability		2,440,673
Total OPEB Liability - beginning		2,494,635
Total OPEB Liability - ending (a)	\$	4,935,308
 Plan Fiduciary Net Position		
Contributions - Employer	\$	626,536
Investment Income, Net		28,116
Benefits Payments		(99,094)
Net Change in the Plan Fiduciary Net Position		555,558
Plan Fiduciary Net Position - beginning		1,586,773
Plan Fiduciary Net Position - ending (b)	\$	2,142,331
 District's Net OPEB Liability (a) - (b)	 \$	 2,792,977

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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 43.41%.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB Liability	\$ 3,400,656	\$ 2,792,977	\$ 2,286,957

Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Trends – 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	\$ 2,236,856	\$ 2,792,977	\$ 3,465,012

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the District recognized OPEB expense of \$ 261,379. At June 30, 2019, 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	\$ 1,623,839	\$ 904,378
Changes in Assumptions	246,422	1,482,472
Difference Between Expected and Actual Earnings on OPEB Plan Investments	-	22,493
Total	\$ 1,870,261	\$ 2,409,343

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(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	\$	(44,969)
2021		(44,969)
2022		(44,969)
2023		(44,970)
2024		(39,346)
2025		(319,859)
		<u>(319,859)</u>
	\$	<u>(539,082)</u>

I. Unrestricted Net Position:

Unrestricted net position consists of the following at June 30, 2019:

Designated By Board For:		
Plant Replacement	\$	2,379,356
Debt Reserve		4,259,891
O & M Reserve		1,080,000
Subsequent Year's Budget		1,770,000
Carryover Encumbrances		298,432
		<u>298,432</u>
Total Designated		9,787,679
Undesignated (Deficit)		(8,163,051)
		<u>(8,163,051)</u>
	\$	<u>1,624,628</u>

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, with a schedule extending to 2027. The agreement also includes the opportunity to adjust the AOC schedule as part of the overall City of Worcester Integrated Water Resources Management Plan (IP). The first of the three-phase projects, Phase A, with a cost of approximately \$25 million, was put into operation in fiscal 2019. Design of the second project, Phase B, was completed this fiscal year. Phase B construction is scheduled 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 IP should include proposed projects, associated costs and a prioritized schedule for implementation based on environmental benefit and ratepayer affordability. The Worcester IP is scheduled to be submitted to EPA in fall of 2019.

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

**Notes To The Basic Financial Statements
For The Year Ended June 30, 2019
(Continued)**

K. Implementation of GASB Pronouncements:

Statement #83, *Certain Asset Retirement Obligations*, which was required to be implemented during fiscal 2019. The implementation of this statement had no effect on the District's basic financial statements.

Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, which was required to be implemented during fiscal 2019. The implementation of this statement had no effect on the District's basic financial statements.

Statement #89, *Accounting for Interest Cost incurred before the end of a Construction Period*, which was required to be implemented during fiscal 2021 was implemented during fiscal 2019. The implementation of this statement resulted in the District reporting approximately \$ 237,000 in additional interest expense in fiscal 2019.

L. Future Implementation of GASB Pronouncements:

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 #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.

Statement #91, *Conduit Debt Obligations*, which is required to be implemented during fiscal 2022. 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, 2019

	Original Budget	Final Budget	Actual	Variances Positive (Negative)
Revenues				
Member Assessments	\$ 24,056,467	\$ 24,056,467	\$ 24,056,467	\$ -
Service, Septage and Sludge Charges	2,910,180	2,910,180	3,481,316	571,136
Investment and Other Income	1,155,000	1,155,000	2,138,838	983,838
State Grants	674,417	674,417	674,417	-
Transfer from Unreserved Fund	1,500,000	1,500,000	1,500,000	-
Total Revenues	30,296,064	30,296,064	31,851,038	1,554,974
Expenditures				
Operations	7,941,979	7,941,979	8,287,721	(345,742)
Maintenance	4,606,727	4,606,727	4,512,718	94,009
Administration	2,386,888	2,386,888	2,278,285	108,603
Laboratory and Pretreatment	1,096,691	1,096,691	1,038,194	58,497
Debt Service	12,968,830	12,468,830	12,013,758	455,072
Transfer to Reserves	1,770,000	2,270,000	2,270,000	-
Total Expenditures	30,771,115	30,771,115	30,400,676	370,439
Operating Income (Loss)	(475,051)	(475,051)	1,450,362	1,925,413
Budgetary Fund Balance, Beginning of Year	475,051	475,051	475,051	-
Budgetary Fund Balance, End of Year	\$ -	\$ -	\$ 1,925,413	\$ 1,925,413

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, 2019

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 2019, 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, 2019.

Notes to Schedule of Revenues and Expenditures - Budget and Actual

	Revenue	Expenditures
Per Statement of Revenues, Expenses and Changes in Net Position	\$ 31,654,056	\$ 27,386,821
Adjustments:		
Eliminate Depreciation and Amortization		(7,892,264)
Eliminate Amortization of Deferred Refunding Charge		(87,270)
Add Principal Payments on Bonds		7,804,835
Adjust State Revolving Fund Reimbursements and Interest Expense to Cash Basis	9,259	31,445
Add Capital Items		1,121,870
Eliminate Nonbudgeted Grant	(1,157,921)	
Add Transfer to Reserves		2,270,000
Add Transfer from Unreserved Fund	1,500,000	
Eliminate GASB Stmt.#75 Adjustment		365,157
Eliminate GASB Stmt.#68 Adjustment	(154,356)	(599,918)
	\$ 31,851,038	\$ 30,400,676
Per Above Schedule		

**UPPER BLACKSTONE WATER POLLUTION
ABATEMENT DISTRICT**

Required Supplementary Information

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

	Year Ended June 30,				
	2019	2018	2017	2016	2015
District's Proportion of the Net Pension Liability	0.06271%	0.06445%	0.06517%	0.06237%	0.06291%
District's Proportionate Share of the Net Pension Liability	\$ 8,296,794	\$ 8,265,187	\$ 8,986,644	\$ 7,099,775	\$ 4,670,154
District's Covered-Employee Payroll	\$ 3,676,509	\$ 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	225.67%	224.72%	247.56%	207.98%	143.88%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	67.91%	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 Pension Contributions

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 419,122	\$ 419,300	\$ 413,831	\$ 389,158	\$ 370,024
Contribution in Relation to the Contractually Required Contribution	(419,122)	(419,300)	(413,831)	(389,158)	(370,024)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 3,676,509	\$ 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%	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, 2019

Changes of Assumptions:

Amounts reported as of June 30, 2018 reflect a change in the discount rate to 7.35 percent from 7.50 percent used in the prior year. For disability retirement as of June 30, 2018, the expectation of mortality was based on the RP-2014 Blue Collar Health Annuitant Table projected generationally with Scale MP-2016, set forward 1 year rather than the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2015.

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

Schedule of Changes in Net OPEB Liability

	Year Ended June 30,	
	2019	2018
Total OPEB Liability		
Service Cost	\$ 120,295	\$ 223,862
Interest on Liability and Service Cost	186,053	193,683
Experience (Gain) and Loss	1,939,148	(1,209,396)
Change in Assumptions	294,271	(1,982,462)
Benefit Payments	(99,094)	(81,305)
Net Change in total OPEB Liability	2,440,673	(2,855,618)
Total OPEB Liability - beginning	2,494,635	5,350,253
Total OPEB Liability - ending (a)	<u>\$ 4,935,308</u>	<u>\$ 2,494,635</u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 626,536	\$ 1,668,078
Investment Income, Net	28,116	-
Benefits Payments	(99,094)	(81,305)
Net Change in Plan Fiduciary Net Position	555,558	1,586,773
Plan Fiduciary Net Position - beginning	1,586,773	-
Plan Fiduciary Net Position - ending (b)	<u>\$ 2,142,331</u>	<u>\$ 1,586,773</u>
 District's Net OPEB Liability (a) - (b)	<u>\$ 2,792,977</u>	<u>\$ 907,862</u>
 Schedule of OPEB Net Liability		
Total OPEB Liability	\$ 4,935,308	\$ 2,494,635
Plan Fiduciary Net Position	2,142,331	1,586,773
Net OPEB Liability	<u>\$ 2,792,977</u>	<u>\$ 907,862</u>
 Plan Fiduciary Net Position as a Percentage of the Total Liability	43.41%	63.61%
Covered Payroll	\$ 4,129,154	\$ 3,707,317
Net Liability as a Percentage of Covered Payroll	67.64%	24.49%
Weighted Average Investment Return	1.72%	0.00%

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 business-type activity and fiduciary fund of the Upper Blackstone Water Pollution Abatement District as of and for the year ended June 30, 2019, 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 October 11, 2019.

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.

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.

October 11, 2019

McCarthy, Hargrave & Co.