Roselli, Clark & Associates
Certified Public Accountants

# UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

Basic Financial Statements and Additional Information

Year Ended June 30, 2023

RCA CPA

**UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT**

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**YEAR ENDED JUNE 30, 2023**

RCA CPA

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Upper Blackstone Water Pollution Abatement District
Millbury, Massachusetts

## Opinions

We have audited the accompanying financial statements of the Upper Blackstone Water Pollution Abatement District (the "District") as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Responsibilities of Management for the Financial Statements

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with 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.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
August 30, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Upper Blackstone Water Pollution Abatement District (the "District"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the financial statements and required supplementary information as listed in the table of contents.

### Financial Highlights

- The assets and deferred outflows of financial resources of the District exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by nearly $25.1 million (*total net position*). Of this amount over $5.5 million (*total unrestricted net position*) may be used to meet the District's ongoing operations and financial commitments.

- The District designates approximately $11.6 million of its unrestricted net position for a variety of future physical plant, general operations and debt service purposes and approximately $0.2 million in encumbrances.

- The District's total net position increased over $0.9 million in fiscal year 2023 as total revenues of approximately $33.2 million exceeded total expenses of approximately $32.3 million.

- The District issued $2.0 million in bond anticipation notes payable in October 2022 to finance various general capital expenditures.

- The District's long-term debt in the form of general obligation bonds and notes payable decreased over $8.8 million in fiscal year 2023, which was due entirely to scheduled principal paydowns. The District did not complete any long-term borrowings in fiscal year 2023.

### Overview of the Financial Statements

The District is a special purpose government engaged in single business-type activity with a fiduciary fund to account for its other postemployment benefits trust. The District's financial statements are reported using the accrual basis of accounting.

This report consists of two parts: management's discussion and analysis and the basic financial statements. The financial statements also include notes that explain information in the financial statements in more detail. The District is a self-supporting entity that follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to a private business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between those categories reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected service charges.)

The statement of cash flows presents information on the District's cash receipts, cash payments and changes in cash resulting from operating, investing and financing activities.

The accompanying notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget to actual results and progress in funding long-term obligations to its employees and retirees.

**Statement of Net Position**

The condensed comparative statements of net position for the two most recent fiscal years are as follows:

| | June 30, | | Dollar | Percent |
|---|---|---|---|---|
| | 2023 | 2022 | Change | Change |
| Assets: | | | | |
| Current and other assets | $ 21,319,912 | $ 20,743,471 | $ 576,441 | 2.8% |
| Capital assets, net | 149,818,959 | 155,833,974 | (6,015,015) | -3.9% |
| Total Assets | 171,138,871 | 176,577,445 | (5,438,574) | -3.1% |
| Deferred Outflows of Resources | 2,122,063 | 3,043,175 | (921,112) | -30.3% |
| Liabilities: | | | | |
| Long-term liabilities | 131,333,070 | 138,809,086 | (7,476,016) | -5.4% |
| Other liabilities | 14,398,666 | 11,995,029 | 2,403,637 | 20.0% |
| Total Liabilities | 145,731,736 | 150,804,115 | (5,072,379) | -3.4% |
| Deferred Inflows of Resources | 2,437,863 | 4,643,568 | (2,205,705) | -47.5% |
| Net Position: | | | | |
| Net investment in capital assets | 19,563,815 | 20,263,531 | (699,716) | -3.5% |
| Unrestricted | 5,527,520 | 3,909,406 | 1,618,114 | 41.4% |
| Total Net Position | $ 25,091,335 | $ 24,172,937 | $ 918,398 | 3.8% |

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. The District's total net position increased by over $0.9 million from the prior year.

The largest portion of the District's overall net position reflects its investment in capital assets less related debt and liabilities used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its member communities and other end customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, 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.

Restricted net position includes amounts restricted by external parties such as creditors, grantors, contributors or through laws or regulations. The District does not report any amounts as restricted net position.

The remaining category represents unrestricted net position, which currently has a positive balance of approximately $5.5 million. The District has designated approximately $11.4 million of its unrestricted net position for the following purposes – plant replacement ($2.4 million), debt service ($7.3 million) and operations and maintenance ($1.7 million). An additional approximate $0.2 million is reserved for encumbrances and nearly $2.1 million is reserved to balance the fiscal year 2024 budget. As a result, the undesignated portion of the unrestricted net position is a deficit of approximately $8.4 million at June 30, 2023. This deficit is almost entirely attributable to the District's recognition of approximately $10.4 million in net pension and net OPEB liabilities at June 30, 2023.

**Statement of Revenues, Expenses and Changes in Net Position**

The condensed comparative statements of revenues, expenses and changes in net position for the two most recent fiscal years are as follows:

| | Fiscal Year Ended June 30, | | Dollar | Percent |
|---|---|---|---|---|
| | 2023 | 2022 | Change | Change |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Member assessments | $ 25,806,526 | $ 25,300,141 | $ 506,385 | 2.0% |
| Charges for services and other | 5,053,584 | 4,898,764 | 154,820 | 3.2% |
| Nonoperating revenues: | | | | |
| Investment income | 1,357,168 | 247,293 | 1,109,875 | 448.8% |
| Intergovernmental - noncapital | 477,408 | 341,048 | 136,360 | 40.0% |
| Intergovernmental - capital | 558,741 | 578,284 | (19,543) | -3.4% |
| Total Revenues | 33,253,427 | 31,365,530 | 1,887,897 | 6.0% |
| Expenses: | | | | |
| Payroll and personnel related | 7,234,273 | 6,890,630 | 343,643 | 5.0% |
| Energy and utilities | 5,295,287 | 4,247,469 | 1,047,818 | 24.7% |
| Chemicals | 3,937,754 | 3,372,545 | 565,209 | 16.8% |
| Depreciation and amortization | 9,020,410 | 8,741,443 | 278,967 | 3.2% |
| Interest | 3,550,262 | 3,722,204 | (171,942) | -4.6% |
| Other expenses | 3,297,043 | 3,185,151 | 111,892 | 3.5% |
| Total Expenses | 32,335,029 | 30,159,442 | 2,175,587 | 7.2% |
| Change in Net Position | 918,398 | 1,206,088 | (287,690) | -23.9% |
| Net Position: | | | | |
| Beginning of year | 24,172,937 | 22,966,849 | 1,206,088 | 5.3% |
| End of year | $ 25,091,335 | $ 24,172,937 | $ 918,398 | 3.8% |

Operating revenues increased nearly $0.7 million year-over-year and was due primarily to increased member assessments. Nonoperating revenues increased over $1.2 million year-over-year. This increase was due primarily to a significant increase in investment income year-over-year.

Operating expenses increased approximately $2.2 million in fiscal year 2023. This increase was due primarily to the following:

- A nearly $1.0 million increase in energy and utilities expenses. The market prices for energy continue to escalate.
- An approximate $0.6 million increase in chemicals, which is primarily a function of increased market prices for the chemicals used by the District in its treatment operations.

## OPEB Trust

The District accounts for and reports its OPEB trust in a fiduciary fund in these basic financial statements. The District made cash contributions of $220,500 in fiscal year 2023. The fiduciary net position in the OPEB trust increased nearly $541,000 in fiscal year 2023 due to a significant improvement in investment returns in fiscal year 2023. Based on the latest actuarial data, the District's OPEB trust is approximately 80% funded at June 30, 2023.

The fiduciary net position of the OPEB trust is not included in the District's statement of net position.

## General Fund Budgetary Highlights

There were no differences between the District's original budget and its final budget in fiscal year 2023.

Actual revenues on a budgetary basis exceeded final budget by nearly $1.6 million, which was due primarily to positive variances in investment income and other revenues. Overall expenditures were nearly $1.2 million under budget. The District reported a negative budget variance of nearly $1.8 million in operations, which was due primarily to:

- An approximately $0.8 million negative variance in chemicals;
- An approximate $0.8 million negative variance in electricity; and
- An approximate $0.2 million negative variance in incinerator gas.

Administration expenses were modestly over budget. Temporary personnel replacement services increased approximately $57,000 year-over-year.

## Capital Asset and Debt Administration

*Capital Assets* – The District's investment in capital assets as of June 30, 2023 totaled approximately $149.8 million, net of accumulated depreciation. Net capital assets decreased over $6.0 million year-over-year as depreciation expense exceeded current year capital additions.

The District is currently subject to an Administrative Order on Consent ("AOC") with the U.S. Environmental Protection Agency (the "EPA") to complete additional plant upgrades to achieve NPDES permit compliance for nutrients (nitrogen and phosphorus). These modifications are expected to require significant debt-funded capital investment. Modifications to the construction schedule for the next requirement of the AOC, completion of Phase B nutrient upgrades construction, were included as part of the Integrated Water Resources Management Plan completed by the City of Worcester in 2019. The District subsequently submitted a Request for Modification of the AOC schedule to the EPA in September 2020. Negotiations related to the Integrated Plan and the AOC schedule are underway and the EPA has extended the Phase B construction deadline to provide for these negotiations.

The District also invests in a cash-funded capital program to replace existing assets as they reach the end of their useful life.

Additional information on the District's net capital assets can be found in the notes to the basic financial statements.

*Temporary or Short-Term Debt* – The District issued a one-year $2.0 million bond anticipation notes payable in October 2022 at a net interest cost of 3.55%. The proceeds of this short-term borrowing were used to finance general capital expenditures.

*Long-Term Debt* – At June 30, 2023, the District's total general obligation bond and notes payable debt decreased over $8.8 million to approximately $129.0 million. The District did not complete any long-term debt issuances in fiscal year 2023 or 2022.

Moody's Investors Services assigns the District an Aa3 credit rating on its general obligation bond obligations, which is the fourth highest credit rating it assigns for long-term debt. This credit rating signifies that the District's long-term debt instruments are of investment grade.

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

## Economic Factors and Next Year's Budget and Member Community Assessments

In January 2023, the Board of Directors approved an approximate $36.4 million operating budget for fiscal year 2024, which is an increase of approximately $3.3 million from the fiscal year 2023 budget.

Member assessments are budgeted to increase approximately $1.2 million to over $27.0 million in fiscal year 2024. The District budgeted the use of $2,055,000 of free cash to balance the fiscal year 2024 budget.

## Requests for Information

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

## STATEMENT OF NET POSITION
## JUNE 30, 2023

| | |
|---|---|
| Assets: | |
| Current Assets: | |
| Cash and cash equivalents | $ 1,158,606 |
| Investments | 18,048,548 |
| Receivables, net of allowances: | |
| User charges and other | 664,225 |
| Accrued interest receivable | 43,132 |
| Prepaid items | 1,950 |
| Total Current Assets | 19,916,461 |
| Noncurrent Assets: | |
| Intergovernmental receivables | 1,403,451 |
| Land and land improvements | 724,863 |
| Construction in-progress | 6,470,405 |
| Depreciable capital assets, net | 142,623,691 |
| Total Noncurrent Assets | 151,222,410 |
| Total Assets | 171,138,871 |
| Deferred Outflows of Resources: | |
| Loss on refunding | 168,061 |
| Other postemployment benefits | 575,752 |
| Pensions | 1,378,250 |
| Total Deferred Outflows of Resources | 2,122,063 |

*(continued)*

## STATEMENT OF NET POSITION
## JUNE 30, 2023

| | |
|---|---|
| Liabilities: | |
| Current Liabilities: | |
| Accounts payable and accrued expenses | $ 2,336,091 |
| Accrued payroll and related expenses | 141,999 |
| Accrued interest | 1,218,400 |
| Compensated absences | 432,912 |
| Bond anticipation note payable | 2,000,000 |
| Current portion of long-term debt | 8,269,266 |
| Total Current Liabilities | 14,398,668 |
| Noncurrent liabilities: | |
| Compensated absences | 180,491 |
| Net other postemployment benefits liability | 946,065 |
| Net pension liability | 9,468,377 |
| Long-term debt | 120,738,135 |
| Total Noncurrent Liabilities | 131,333,068 |
| Total Liabilities | 145,731,736 |
| Deferred Inflows of Resources: | |
| Other postemployment benefits | 1,925,049 |
| Pensions | 512,814 |
| Total Deferred Inflows of Resources | 2,437,863 |
| Net Position: | |
| Net investment in capital assets | 19,563,815 |
| Unrestricted | 5,527,520 |
| Total Net Position | $ 25,091,335 |

*(concluded)*

See accompanying notes to basic financial statements.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
### AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| Operating Revenues: | |
| Member assessments | $ 25,806,526 |
| Charges for services: | |
| Sludge | 2,014,674 |
| Septage | 835,828 |
| Other services | 292,517 |
| Energy credits | 1,829,320 |
| Other operating revenues | 81,245 |
| Total Operating Revenues | 30,860,110 |
| Operating Expenses: | |
| Payroll and related personnel costs | 7,234,273 |
| Energy and utilities | 5,295,287 |
| Chemicals | 3,937,754 |
| Repairs and maintenance | 1,178,306 |
| Depreciation and amortization | 9,020,410 |
| Other operating expenses | 2,118,737 |
| Total Operating Expenses | 28,784,767 |
| Operating Income | 2,075,343 |
| Nonoperating Revenues (Expenses): | |
| Intergovernmental | 477,408 |
| Investment income | 1,357,168 |
| Interest expenses | (3,550,262) |
| Total Nonoperating Revenues (Expenses) | (1,715,686) |
| Income Before Capital Contributions | 359,657 |
| Capital Contributions: | |
| Intergovernmental | 558,741 |
| Total Capital Contributions | 558,741 |
| Change in Net Position | 918,398 |
| Net Position: | |
| Beginning of the year | 24,172,937 |
| End of the year | $ 25,091,335 |

See accompanying notes to basic financial statements.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### STATEMENT OF CASH FLOWS
### AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| Cash Flows from Operating Activities: | |
| Receipts from customer user charges | $ 29,060,077 |
| Receipts from other operating revenues | 1,910,565 |
| Payments to employees | (8,353,437) |
| Payments to vendors | (10,941,951) |
| Net Cash Provided By Operating Activities | 11,675,254 |
| Cash Flows from Noncapital Financial Activities: | |
| Proceeds from operating grants | 477,408 |
| Net Cash Provided By Noncapital Financing Activities | 477,408 |
| Cash Flows from Capital and Related Financing Activities: | |
| Proceeds from capital grants | 558,741 |
| Proceeds from the issuance of short-term debt | 2,000,000 |
| Acquisition and construction of capital assets | (3,005,395) |
| Principal repayments on long-term debt | (8,825,968) |
| Interest payments | (3,552,185) |
| Net Cash Used In Capital and Related Financing Activities | (12,824,807) |
| Cash Flow from Investing Activities: | |
| Investment income | 1,357,168 |
| Investment of operating cash | (1,905,010) |
| Net Cash Used In Investing Activities | (547,842) |
| Change in Cash and Cash Equivalents | (1,219,987) |
| Cash and Cash Equivalents: | |
| Beginning of the year | 2,378,593 |
| End of the year | $ 1,158,606 |

*(continued)*

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### STATEMENT OF CASH FLOWS
### AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

| | |
|---|---|
| Operating Income | $ 2,075,343 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation expense | 9,020,410 |
| Changes in assets, deferred outflows (inflows) of resources and liabilities: | |
| Receivables and other current assets | 108,582 |
| Accounts payable and other current liabilities | 997,695 |
| Accrued and deferred benefits payable | (526,776) |
| Net Cash Provided By Operating Activities | $ 11,675,254 |

*(concluded)*

See accompanying notes to basic financial statements.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### FIDUCIARY FUND
### STATEMENT OF FIDUCIARY NET POSITION
### JUNE 30, 2023

| | | OPEB Trust |
|---|---|---|
| Assets: | | |
| Cash equivalents | $ | 274,601 |
| Investments at fair value: | | |
| Fixed income securities | | 1,085,822 |
| Equity securities | | 2,325,548 |
| Mutual funds | | 10,058 |
| Total Assets | $ | 3,696,029 |
| Net Position Restricted for Other Postemployment Benefits | $ | 3,696,029 |

See accompanying notes to basic financial statements.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### FIDUCIARY FUND
### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
### AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

| | OPEB Trust |
|---|---|
| Additions: | |
| Employer contributions | $ 416,563 |
| Investment income: | |
| Interest and dividends | 66,449 |
| Net appreciation in fair value of investments | 263,494 |
| Less investment management fees | (9,623) |
| Total net investment income | 320,320 |
| Total Additions | 736,883 |
| Deductions: | |
| Benefits to retirees and survivors | 196,063 |
| Total Deductions | 196,063 |
| Change in Net Position | 540,820 |
| Net Position: | |
| Beginning of the year | 3,155,209 |
| End of the year | $ 3,696,029 |

See accompanying notes to basic financial statements.

## I. Summary of Significant Accounting Policies

The basic financial statements of the Upper Blackstone Water Pollution Abatement District (the "District") have been prepared in conformity with generally accepted accounting principles in the United States of America, or GAAP, as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board ("GASB"), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the District.

### A. Reporting Entity

The District was established as a public corporation through Chapter 752 of the Acts of 1968 of the General Court of the Commonwealth of Massachusetts (the "Commonwealth") for the purpose of abating water pollution through the treatment of sewage collected from local systems. The District is self-funded through assessments to member communities (see below) and charges for services to other end users.

The District's area of potential service includes the sewer districts in the City of Worcester, the towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury and West Boylston. The current members of the District include the City of Worcester and towns of Auburn, Holden, Millbury, Rutland, West Boylston and the Cherry Valley Sewer District of Leicester (collectively referred to as the "member communities").

The District is governed by a Board of Directors (the "Board") comprised of representatives from each member community. The Board appoints an engineer-director/treasurer to manage the District's day-to-day operations. The City of Worcester has majority control of the Board of Directors. While legally separate, the District is considered a component unit of the City of Worcester for financial reporting purposes.

### B. Basis of Accounting and Financial Statement Presentation

The District is a special purpose government engaged in single business-type activity with a fiduciary fund to account for its other postemployment benefits trust. The District's financial statements are reported using the accrual basis of accounting. Revenues and expenses are recorded when incurred, regardless of the timing of related cash flows.

The District's financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing wastewater treatment services. The principal operating revenues are member assessments and fees for the treatment of septage and sludge. Operating expenses primarily consist of salaries and wages, ordinary maintenance and supplies, noncapitalizable expenses, utilities and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District is exempt from all federal and state income taxes and local property taxes.

## C. Assets, Liabilities, and Deferred Outflows/Inflows of Resources and Net Position

*Deposits and Investments* – 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 the date of acquisition. The District reports its investments at fair value. When actively quoted observable prices are not available, the District generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* – Inputs reflect the District's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

*Receivables* – Assessments to member communities are established annually by the Board. Receivables consist primarily of unpaid charges for services due from other end users. Receivables are reported net of allowances for uncollectible accounts.

*Inventories and Prepaid Items* – Inventories are reported at the lower of cost or market and are accounted for on the first-in, first-out basis. Inventories are not material to the District's financial statements and are therefore expensed at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in the financial statements.

*Capital Assets* – Capital assets, which include land, construction in-progress, treatment facilities, vehicles, machinery and equipment, vehicles, software and certain intangible assets, are reported at historical cost. All material purchases and construction costs are capitalized at the date of acquisition or construction, respectively, if expected lives are deemed greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction in-progress) are depreciated by the District on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Treatment facilities | 20 to 50 years |
| Machinery and equipment | 3 to 20 years |
| Intangible assets | 5 to 15 years |

The District has capitalized certain costs related to advanced feasibility studies. These capitalized costs are reported as intangible assets.

*Compensated Absences* – The District's personnel policies permit employees to accumulate earned but unused vacation and sick pay benefits. Earned but unpaid amounts related to these benefits are reported as liabilities in the District's financial statements.

*Long-Term Debt* – Long-term debt is reported as liabilities in these basic financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of net position reports 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 reports deferred outflows of resources relative to other postemployment benefits ("OPEB") and pension-related transactions. The District expects to recognize the reported deferred outflows of resources relative to these personnel-related transactions over the next four years.

In addition to liabilities, the statement of net position reports 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 reports deferred inflows of resources relative to OPEB and pension-related transactions and expects to recognize these amounts over the next six years against personnel-related transactions.

*Net Position* – Net position reported as net investment in capital assets includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Restricted net position includes amounts restricted by external parties such as creditors, grantors, contributors or through laws or regulations. The District does not report any amounts as restricted net position.

Net position that does not meet the definitions above is reported as unrestricted. Included in the District's unrestricted net position are amounts designated for future debt service ($7,324,148), plant replacement ($2,379,356) and general operations and maintenance reserves ($1,690,000). An additional $230,860 is designated for encumbrances at year end and $2,055,000 was designated to balance the fiscal year 2024 budget. Designated amounts are not reported as restricted because designations represent planned actions, not actual commitments. These designated amounts total $13,679,364 at June 30, 2023.

## D. Budgetary Data

An annual budget is adopted by the Board on a basis that differs from GAAP. A budgetary comparison is included as required supplementary information to the District's financial statements. Unspent appropriations are carried over to the next fiscal year.

## E. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

# II. Detailed Notes to All Funds

## A. Deposits and Investments

State laws and regulations require the District to invest funds only in preapproved investment instruments which include, but are not necessarily limited to, bank deposits, money markets, certificates of deposit, U.S. treasury bonds, repurchase agreements, and the State Treasurer's investment pool, which is administered by the Massachusetts Municipal Depository Trust, or MMDT. In addition, the statutes impose various limitations on the amount and length of investments and deposits.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District relies on depository insurance coverage at each financial institution to address this risk. At June 30, 2023, $252,306 in bank deposits were uninsured.

*Fair Value Measurements: Investments* – The following table presents the District's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2023:

| | June 30, | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Investments by Fair Value Level | 2023 | Level 1 | Level 2 | Level 3 |
| Debt securities: | | | | |
| U.S. Treasury notes | $ 6,110,031 | $ 6,110,031 | $ - | $ - |
| U.S. Government agency notes | 1,134,261 | - | 1,134,261 | - |
| Total debt securities | 7,244,292 | 6,110,031 | 1,134,261 | - |
| Equity securities | 13,099,568 | 13,099,568 | | |
| Mutual funds | 10,058 | - | 10,058 | - |
| Total investments by fair value level | 20,353,918 | $ 19,209,599 | $ 1,144,319 | $ - |
| Investments measured at amortized cost: | | | | |
| MMDT | 1,116,058 | | | |
| Total investments | $ 21,469,976 | | | |

*Custodial Credit Risk: Investments* – In the case of investments, this is the risk that in the event of an invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the District may not be able to recover the full amount of its principal investment and/or investment earnings. All of the District's investments are registered in its name and cannot be pledged or assigned. As a result, the District is not exposed to custodial credit risk on its investments.

*Interest Rate Risk: Investments* – This is the risk that changes in interest rates will adversely affect the market value of an investment. The District manages interest rate risk by managing the duration of its investments in debt securities.

*Investment Maturities* – At June 30, 2023, the District had the following investments and maturities:

| Investment Type | Fair Value | Time Until Maturity (in years) Less than 1 | 1 to 5 | 6 to 10 |
|---|---|---|---|---|
| Debt securities: | | | | |
| U.S. Government obligations and notes | $ 7,244,292 | $ 1,985,777 | $ 5,258,515 | $ - |
| Other investments: | | | | |
| Equity securities | 13,099,568 | | | |
| Mutual funds | 10,058 | | | |
| MMDT | 1,116,058 | | | |
| Total investments | $ 21,469,976 | | | |

*Credit Risk: Investments* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy restricts investments in debt securities to Aaa-rated obligations or issues backed by the full faith and credit of the U.S. Treasury. At June 30, 2023, all of the District's investments in U.S. Treasury notes and other U.S. government agency notes were rated Aaa by Moody's Investor Services.

*Concentration of Credit Risk: Investments* – The District's investment policy is to diversify its investment portfolio, so no single investment (excluding investments in U.S. Treasury Notes) exceeds 5% of the District's total investments. At June 30, 2023, approximately 28% of the District's total investments were in the form of U.S. Treasury notes. No other individual investment security exceeded 5% of the District's total investments at June 30, 2023.

**B. Receivables**

Receivables as of June 30, 2023, net of applicable allowances for uncollectible accounts, were as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|---|---|---|
| User charges | $ 664,225 | $ - | $ 664,225 |
| MCWT principal subsidies | 1,403,451 | - | 1,403,451 |
| Total receivables, net of allowances | $ 2,067,676 | $ - | $ 2,067,676 |

The District has entered into certain loan agreements with the Massachusetts Clean Water Trust ("MCWT") whereby it expects to be subsidized by the MCWT in future years for debt service costs until the maturity of these loan agreements. The District is legally obligated for the total amount of the debt; therefore, portions of future debt service subsidies have been recorded as intergovernmental receivables in the accompanying basic financial statements. At June 30, 2023, the total reported intergovernmental receivable related to these future principal subsidies was $1,403,451. In addition to these principal subsidies, the District expects to receive $3,702,426 in interest subsidies through June 30, 2035.

### C. Capital Assets

Capital asset activity for the year ended June 30, 2023 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | $ 724,863 | $ - | $ - | $ 724,863 |
| Construction in-progress | 5,732,413 | 737,992 | - | 6,470,405 |
| Total capital assets not being depreciated | 6,457,276 | 737,992 | - | 7,195,268 |
| Capital assets being depreciated: | | | | |
| Treatment facilities | 280,516,787 | 292,902 | (612,176) | 280,197,513 |
| Machinery and equipment | 14,165,424 | 1,974,500 | 612,176 | 16,752,100 |
| Intangible assets | 2,741,725 | - | - | 2,741,725 |
| Total capital assets being depreciated | 297,423,936 | 2,267,402 | - | 299,691,338 |
| Less accumulated depreciation for: | | | | |
| Treatment facilities | (137,923,555) | (7,680,480) | 262,443 | (145,341,592) |
| Machinery and equipment | (8,376,973) | (1,164,945) | (255,743) | (9,797,661) |
| Intangible assets | (1,746,710) | (174,984) | (6,700) | (1,928,394) |
| Total accumulated depreciation | (148,047,238) | (9,020,409) | - | (157,067,647) |
| Total capital assets being depreciated, net | 149,376,698 | (6,753,007) | - | 142,623,691 |
| Total capital assets, net | $ 155,833,974 | $ (6,015,015) | $ - | $ 149,818,959 |

### D. Temporary Debt

The District is authorized to borrow on a temporary or short-term basis. Temporary borrowings are generally used to finance major capital additions, generally through bond anticipation notes ("BANs"). The following summarizes the District's temporary or short-term borrowings for the fiscal year ended June 30, 2023:

| Type | Interest Rate | Maturity Date | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|---|---|
| BAN | 4.00% | 10/19/2023 | $ - | $ 2,000,000 | $ - | $ 2,000,000 |

The BAN was issued for general capital upgrades.

## E. Long–Term Obligations

The District issues general obligation bonds and notes payable to provide funds for the acquisition and construction of major capital facilities. Additionally, the District incurs various other long-term obligations relative to personnel-related costs. The following table reflects the activity in the District's long-term liability accounts in the current fiscal year:

| Description of Issue | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 14,680,000 | $ - | $ (1,910,000) | $ 12,770,000 | $ 1,205,000 |
| Direct borrowings and placements | 122,449,325 | - | (6,783,732) | 115,665,593 | 6,965,017 |
| Unamortized bond premiums | 704,044 | - | (132,236) | 571,808 | 99,249 |
| Total long-term debt | 137,833,369 | - | (8,825,968) | 129,007,401 | 8,269,266 |
| Compensated absences | 599,680 | 13,723 | - | 613,403 | 432,912 |
| Net OPEB liability | 2,444,159 | 1,951,555 | (3,449,649) | 946,065 | - |
| Net pension liability | 7,179,273 | 5,542,946 | (3,253,842) | 9,468,377 | - |
| Total long-term obligations | $148,056,481 | $ 7,508,224 | $ (15,529,459) | $140,035,246 | $ 8,702,178 |

General obligation bonds and notes payable outstanding at June 30, 2023 were as follows:

| Description of Issue | Interest Rates | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|---|
| General obligation bonds | 2.0% - 5.0% | $ 14,680,000 | $ - | $ (1,910,000) | $ 12,770,000 |
| MCWT notes payable | 2.0% | 122,449,325 | - | (6,783,732) | 115,665,593 |
| | | 137,129,325 | - | (8,693,732) | 128,435,593 |
| Add: unamortized bond premium | | 704,044 | - | (132,236) | 571,808 |
| | | $137,833,369 | $ - | $ (8,825,968) | $129,007,401 |

*Debt Service* – Debt service requirements on long-term debt at June 30, 2023 are as follows:

| Year Ended | General Obligation Bonds | | Direct Borrowings and Placements | |
|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest |
| 2024 | $ 1,205,000 | $ 347,773 | $ 6,965,017 | $ 3,091,102 |
| 2025 | 1,230,000 | 318,223 | 7,149,073 | 2,885,536 |
| 2026 | 1,255,000 | 288,073 | 7,340,375 | 2,588,263 |
| 2027 | 1,280,000 | 255,948 | 7,534,575 | 2,372,116 |
| 2028 | 1,315,000 | 216,397 | 7,731,740 | 2,261,734 |
| 2029 - 2033 | 3,735,000 | 648,627 | 41,852,858 | 7,221,534 |
| 2034 - 2038 | 2,230,000 | 198,099 | 31,057,809 | 2,280,808 |
| 2039 - 2041 | 520,000 | 13,000 | 6,034,146 | 176,768 |
| | $ 12,770,000 | $ 2,286,140 | $ 115,665,593 | $ 22,877,861 |

General obligation bonds and notes payable consisted of the following at June 30, 2023:

| Purpose/Type | Interest Rates to Maturity | Final Maturity | Outstanding June 30, 2023 |
|---|---|---|---|
| General Obligation Bond - June 2012 | 2.00 - 4.00% | 2040 | $ 2,145,000 |
| General Obligation Bond - June 2016 | 2.00 - 3.00% | 2032 | 3,500,000 |
| General Obligation Bond - December 2019 | 2.00 - 3.00% | 2036 | 4,485,000 |
| General Obligation Refunding - June 2016 | 2.00 - 3.00% | 2028 | 2,640,000 |
| MCWT CW-03-14 - December 2006 | 2.00% | 2035 | 24,637,998 |
| MCWT CW-03-14A - December 2006 | 2.35% | 2035 | 3,171,719 |
| MCWT CW-06-17 - March 2007 | 2.00% | 2037 | 14,497,080 |
| MCWT CW-06-17-A - December 2007 | 2.41% | 2038 | 7,087,291 |
| MCWT CW-06-17-B - March 2009 | 2.42% | 2039 | 14,370,620 |
| MCWT CW-06-17-C - June 2012 | 2.40% | 2041 | 14,918,238 |
| MCWT CWS-09-18 - July 2010 | 2.40% | 2041 | 4,972,935 |
| MCWT CWS-09-18-A - May 2014 | 2.00% | 2033 | 11,010,985 |
| MCWT CWP-16-39 - September 2018 | 2.00% | 2038 | 6,974,282 |
| MCWT CWP-16-39-A - October 2019 | 2.00% | 2039 | 12,487,088 |
| MCWT CWP-16-39-B - October 2019 | 2.00% | 2039 | 1,537,357 |
| | | | $ 128,435,593 |

*Authorized But Unissued Debt* – At June 30, 2023, $22,000,000 in long-term debt has been authorized but unissued. Of this total, $20,000,000 pertained to a stand-by power project; the remaining $2,000,000 pertains to general capital upgrades.

## III. Other Information

### A. Retirement System

The District contributes to the Massachusetts State Employees' Retirement System (the "Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Law ("MGL"). The Retirement System is administered by the Massachusetts State Retirement Board. The Retirement System is a component unit of the Commonwealth and does not issue stand-alone audited financial statements.

*Benefit Terms* – Membership in the Retirement System is mandatory for all full-time employees and nonseasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from one public pension system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

- Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of creditable service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.
- Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of creditable service, average compensation and veteran status.
- Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in fiscal year 2023.

*Contributions Requirements* – The Retirement System is required to be fully funded by June 30, 2040 under current MGL. Employee contribution rates vary based on when an employee commenced their creditable service. Active members contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on when their creditable service commenced. Employees hired on or after January 1, 1979 contribute an additional 2% of their regular gross compensation over $30,000.

The District contributed $500,620 to the Retirement System in fiscal year 2023. The District's contributions as a percentage of covered payroll were approximately 11.4%.

*Net Pension Liability* – At June 30, 2023, the District reported a liability of $9,468,377 for its proportionate share of the net pension liability. The net pension liability was determined by an actuarial valuation as of January 1, 2021 rolled forward to June 30, 2023, which is the measurement date used in these basic financial statements. There were no material changes to the Retirement System's benefit terms since the actuarial valuation.

The District's proportion of the net pension liability is based on a projection of the District's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The District's proportion was approximately 0.068% at June 30, 2023, which was consistent with the prior year.

*Pension Expense* – The District recognized $775,562 in pension expense in fiscal year 2023.

*Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2023, 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 | $ 235,530 | $ 369,554 |
| Changes of assumptions | 260,680 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 50,477 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 381,420 | 92,783 |
| Contributions subsequent to measurement date | 500,620 | - |
| | $ 1,378,250 | $ 512,814 |

The net deferred outflows of resources and deferred inflows of resources are expected to be recognized as a net benefit in the District's pension expense as follows:

| Year ended June 30, | |
|---|---|
| 2024 | $ 770,499 |
| 2025 | (520,526) |
| 2026 | (1,945,633) |
| 2027 | 2,561,096 |
| | $ 865,436 |

*Actuarial Valuation* – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The significant actuarial assumptions used in the latest actuarial valuation included:

- 7.0% investment rate of return;
- 3.50% interest rate credited to the annuity savings fund;
- 3.00% cost of living increase on the first $13,000 of benefits each year;
- Mortality rates were as follows:
  - Pre-retirement – reflects RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020, set forward one year for females;
  - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020, set forward one year for females; and
  - Disability – reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020, set forward one year.

Experience studies dated February 27, 2014 encompasses the period January 1, 2006 to December 31, 2011, updated to reflect actual experience from 2012 through 2020 for post-retirement mortality.

*Long-Term Rate of Return* – The Retirement System's investments are entirely invested with the Commonwealth's Pension Reserve Investment Management Board. 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 returns 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 Retirement System's target allocation in its latest actuarial valuation are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 38% | 4.2% |
| Core fixed income | 15% | 0.5% |
| Private equity | 15% | 7.3% |
| Portfolio completion strategies | 10% | 2.7% |
| Real estate | 10% | 3.3% |
| Value-added fixed income | 8% | 3.7% |
| Timberland/natural resources | 4% | 3.9% |

*Discount Rate* – The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and the employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rates. Based on those assumptions, the Retirement System's fiduciary 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 Analysis* – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as the District's proportionate share of the net pension liability using a discount rate that is 1% lower and higher than the current rate:

| Current | Net Pension Liability At | | |
|---|---|---|---|
| Discount Rate | 1% Decrease | Current Rate | 1% Increase |
| 7.0% | $ 13,059,009 | $ 9,468,377 | $ 6,429,784 |

## B. Other Postemployment Benefits

The District provides health and life insurance benefits to retirement employees and their survivors (the "OPEB Plan"). Health insurance is subscribed through the Commonwealth's General Insurance Commission, or GIC. Specific benefit provisions and contribution rates are established by collective bargaining agreements and state law. The OPEB Plan does not issue stand-alone financial statements and is presented as a fiduciary fund in the District's financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

*Employees Covered by Benefit Terms* – The following participants were covered by the OPEB Plan as of June 30, 2023:

| | |
|---|---|
| Inactive employees or beneficiaries receiving benefits | 36 |
| Active employees | 63 |
| | 99 |

*Contributions* – The contribution requirements of OPEB Plan members and the District are established by collective bargaining agreements. Current retiree contribution rates for health and life insurance are as follows:

| | |
|---|---|
| Retirements on or before July 1, 1994 | 10% |
| Retirements after July 1, 1994 and before October 1, 2009 | 15% |
| Retirements after October 1, 2009 | 20% |

The remainder of the costs as well as the costs of administering the OPEB Plan are paid by the District.

*Net OPEB Liability* – The District's net OPEB liability was determined using an actuarial valuation as of June 30, 2023. The components of the net OPEB liability of the District at June 30, 2023 were as follows:

| | |
|---|---|
| Total OPEB liability | $ 4,642,094 |
| Plan fiduciary net position | (3,696,029) |
| Net OPEB liability | $ 946,065 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 79.6% |

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Asset valuation method | Market value of the assets as of the reporting date |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.25% per year |
| Healthcare cost trend rates | 4.5% per year |
| Participation | 65% are expected to participate in future retiree medical plans |
| Mortality | Healthy, disabled and beneficary mortality is based on the Pub-2010 General Healthy Table projected to 2025 using Scale MP18 |

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) 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 real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations for each major asset class are summarized in the following table:

| Asset Class | Target Allocation |
|---|---|
| Domestic equity | 30% to 70% |
| Domestic fixed income | 30% to 70% |
| Mutual funds | 0% to 30% |
| Money market funds | 0% to 30% |

*Discount Rate* – The discount rate used to measure the total OPEB liability was 7.25%.

*Changes in the Net OPEB Liability* – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2023:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| | *(a)* | *(b)* | *(a) - (b)* |
| Balances at June 30, 2022 | $ 5,599,368 | $ 3,155,209 | $ 2,444,159 |
| Changes for the year: | | | |
| Service cost | 131,778 | - | 131,778 |
| Interest | 407,715 | - | 407,715 |
| Differences in experience | (1,300,704) | - | (1,300,704) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 416,563 | (416,563) |
| Net investment income | - | 320,320 | (320,320) |
| Benefit payments | (196,063) | (196,063) | - |
| Net changes | (957,274) | 540,820 | (1,498,094) |
| Balances at June 30, 2023 | $ 4,642,094 | $ 3,696,029 | $ 946,065 |

*Sensitivity Analyses* – The following presents the District's net OPEB liability calculated using the current discount rate of 7.25% as well as what the District's net OPEB liability using a discount rate that is 1% lower or higher than the current rate:

| | Net OPEB Liability At | | |
|---|---|---|---|
| Current Rate | 1% Decrease | Current | 1% Increase |
| 7.25% | $ 1,521,273 | $ 946,065 | 467,283 |

The following presents the District's net OPEB liability calculated using the current healthcare trend rate assumption of 4.50% as well as what the District's net OPEB liability using a healthcare trend rate that is 1% lower or higher than the current rate:

| | Net OPEB Liability At | | |
|---|---|---|---|
| Current Rate | 1% Decrease | Current | 1% Increase |
| 4.50% | $ 417,729 | $ 946,065 | 1,588,598 |

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB* – For the year ended June 30, 2023, the District recognized OPEB expense of $121,369. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2023 were reported as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 362,603 | $ 1,442,557 |
| Changes of assumptions | 55,026 | 482,492 |
| Net difference between projected and actual earnings on OPEB plan investments | 158,123 | - |
| | $ 575,752 | $ 1,925,049 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as a net benefit to OPEB expense as follows:

| Year Ended June 30, | |
|---|---|
| 2024 | $ (192,761) |
| 2025 | (496,152) |
| 2026 | (107,966) |
| 2027 | (212,753) |
| 2028 | (187,659) |
| 2029 | (152,006) |
| | $ (1,349,297) |

*Investment Custody* – The District Treasurer is the custodian of the OPEB Plan. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the District.

*Investment Policy* – The District's investment policy for its OPEB Plan assets seeks to pursue an investment strategy that reduces risk through the prudent diversification of its investment portfolio of assets across a broad selection of distinct investment asset classes. Additionally, the OPEB Plan invests its funds in permissible investments as stipulated by the Commonwealth.

*Investment Rate of Return* – For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was approximately 16.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## C. Risk Financing

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The amount of claim settlements has not exceeded insurances coverage in any of the previous three years.

## D. Commitments and Contingencies

*General* – The District may be party to certain legal terms that arise during the normal course of operations. These legal claims are subject to many uncertainties, the outcome of which is not always predictable. The District does not believe any such claims currently exist.

*Environmental* – The District is currently complying with the terms of a May 1, 2014 Administrative Order on Consent (the "AOC") with the United States Environmental Protection Agency ("EPA"). In August 2016, a proposed modification to the AOC schedule was accepted by the EPA. The AOC is primarily focused on improvements to reduce effluent nitrogen and phosphorous levels and includes a schedule for future Phase B and Phase C projects that extend to 2027. To date, the District has complied with all the deadlines included in this order. The current AOC schedule agreement includes the opportunity to adjust the AOC schedule as part of the overall City of Worcester Integrated Water Resources Management Plan (the "IP"). The IP was completed and submitted to the EPA by the City of Worcester in October 2019. The IP includes a prioritized schedule for environmental projects funded by City of Worcester ratepayers. The IP schedule postpones the Phase B (estimated to approximate $114 million) and the Phase C (estimated cost is dependent on the National Pollutant Discharge Elimination System permit level for nitrogen) project construction until after 2030. The District submitted a Request for Modification of the AOC schedule, to make it consistent with the IP, to the EPA in September 2020. Negotiations to adopt the IP schedule in a new enforcement order are underway; to accommodate these negotiations, the Phase B construction deadline has been extended several times.

## E. Economic Dependence

Assessments to the City of Worcester totaled approximately 82% and 78% of member assessments and total operating revenues, respectively, for the year ended June 30, 2023.

## IV. Implementation of New GASB Pronouncements

### A. Current Year Implementations

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement was to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement became effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The adoption of this standard did not have a material impact on the District's financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the District's financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* The objective of this Statement was to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the District's financial statements.

### B. Future Year Implementations

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for decision making or assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2023 (fiscal year 2024). The District is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2023 (fiscal year 2025). The District is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * * *

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### REQUIRED SUPPLEMENTARY INFORMATION
### PENSION PLAN

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

*(dollar amounts are in thousands)*

| Year Ended June 30, | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2023 | 0.06807% | $ 9,468 | $ 4,391 | 215.6% | 71.1% |
| 2022 | 0.06879% | 7,179 | 4,187 | 171.5% | 77.5% |
| 2021 | 0.06548% | 11,235 | 4,245 | 264.7% | 62.5% |
| 2020 | 0.06515% | 9,534 | 3,781 | 252.2% | 66.3% |
| 2019 | 0.06271% | 9,297 | 6,377 | 145.8% | 67.9% |
| 2018 | 0.06445% | 8,265 | 3,678 | 224.7% | 67.2% |
| 2017 | 0.06517% | 8,987 | 3,630 | 247.6% | 63.5% |
| 2016 | 0.06237% | 7,100 | 3,413 | 208.0% | 67.9% |
| 2015 | 0.06291% | 4,670 | 3,246 | 143.9% | 76.3% |

### SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO THE PENSION PLAN

*(dollar amounts are in thousands)*

| Year Ended June 30, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2023 | $ 501 | $ 501 | $ - | $ 4,391 | 11.4% |
| 2022 | 477 | 477 | - | 4,187 | 11.4% |
| 2021 | 483 | 483 | - | 4,245 | 11.4% |
| 2020 | 431 | 431 | - | 3,781 | 11.4% |
| 2019 | 419 | 419 | - | 3,677 | 11.4% |
| 2018 | 419 | 419 | - | 3,678 | 11.4% |
| 2017 | 414 | 414 | - | 3,630 | 11.4% |
| 2016 | 389 | 389 | - | 3,413 | 11.4% |
| 2015 | 370 | 370 | - | 3,246 | 11.4% |

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### REQUIRED SUPPLEMENTARY INFORMATION
### OTHER POSTEMPLOYMENT BENEFITS PLAN

### SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
*(dollar amounts are in thousands)*

| | Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total OPEB Liability: | | | | | | |
| Service cost | $ 132 | $ 126 | $ 131 | $ 126 | $ 120 | $ 224 |
| Interest | 408 | 388 | 377 | 343 | 186 | 193 |
| Experience differences | (1,301) | - | (135) | - | 1,939 | (1,209) |
| Changes in assumptions | - | - | - | - | 294 | (1,982) |
| Benefit payments | (196) | (268) | (195) | (229) | (99) | (81) |
| Net Change in Total OPEB Liability | (957) | 246 | 178 | 240 | 2,440 | (2,855) |
| Total OPEB Liability: | | | | | | |
| Beginning of year | 5,599 | 5,353 | 5,175 | 4,935 | 2,495 | 5,350 |
| End of year (a) | $ 4,642 | $ 5,599 | $ 5,353 | $ 5,175 | $ 4,935 | $ 2,495 |
| Plan Fiduciary Net Position: | | | | | | |
| Contributions | $ 417 | $ 478 | $ 395 | $ 419 | $ 627 | $ 1,668 |
| Net investment income (loss) | 320 | (343) | 715 | 40 | 28 | - |
| Benefit payments | (196) | (268) | (195) | (229) | (99) | (81) |
| Net Change in Plan Fiduciary Net Position | 541 | (133) | 915 | 230 | 556 | 1,587 |
| Plan Fiduciary Net Position: | | | | | | |
| Beginning of year | 3,155 | 3,288 | 2,373 | 2,143 | 1,587 | - |
| End of year (b) | $ 3,696 | $ 3,155 | $ 3,288 | $ 2,373 | $ 2,143 | $ 1,587 |
| Net OPEB Liability — End of Year (a) - (b) | $ 946 | $ 2,444 | $ 2,065 | $ 2,802 | $ 2,792 | $ 908 |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 79.6% | 56.3% | 61.4% | 45.9% | 43.4% | 63.6% |
| Covered payroll | $ 4,904 | $ 4,423 | $ 3,995 | $ 4,274 | $ 4,129 | $ 3,707 |
| Net OPEB Liability as a Percentage of Covered Payroll | 19.3% | 55.3% | 51.7% | 65.6% | 67.6% | 24.5% |

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

## REQUIRED SUPPLEMENTARY INFORMATION
## OTHER POSTEMPLOYMENT BENEFITS PLAN

### SCHEDULE OF CONTRIBUTIONS
*(dollar amounts are in thousands)*

| | Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Actuarially determined contribution | $ 318 | $ 466 | $ 390 | $ 299 | $ 285 | $ 307 |
| Contributions in relation to the actuarially-determined contribution | 417 | 478 | 395 | 419 | 627 | 1,688 |
| Contribution deficiency (excess) | $ (99) | $ (12) | $ (5) | $ (120) | $ (342) | $ (1,381) |
| Covered payroll | $ 4,904 | $ 4,423 | $ 3,995 | $ 4,274 | $ 4,129 | $ 3,707 |
| Contribution as a percentage of covered payroll | 8.5% | 10.8% | 9.9% | 9.8% | 15.2% | 45.5% |

Notes to Schedule:

| | |
|---|---|
| Asset valuation method | Market value of the assets as of the reporting date |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.25% per year |
| Healthcare cost trend rates | 4.5% per year |
| Participation | 65% are expected to participate in future retiree medical plans |
| Mortality | Healthy, disabled and beneficiary mortality is based on the Pub-2010 General Healthy Table projected to 2025 using Scale MP18 |

### SCHEDULE OF INVESTMENT RETURNS

| | Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Annual money-weighted rate of return, net of investment expenses | 16.67% | -4.46% | 37.40% | 1.87% | 1.72% | 0.00% |

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

## UPPER BLACKSTONE WATER POLLUTION ABATEMENT DISTRICT

### REQUIRED SUPPLEMENTARY INFORMATION
### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
### BUDGET AND ACTUAL
### FOR THE YEAR ENDED JUNE 30, 2023

| | Budgeted Amounts | | Actual | | Actual | Positive |
|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Budgetary Amounts | Encumbrances | Budgetary Adjusted | (Negative) Variance |
| Revenues: | | | | | | |
| Member assessments | $ 25,806,526 | $ 25,806,526 | $ 25,806,526 | | $ 25,806,526 | $ - |
| Charges for services | 3,381,307 | 3,381,307 | 3,143,020 | | 3,143,020 | (238,287) |
| Intergovernmental revenues | 558,741 | 558,741 | 558,741 | | 558,741 | - |
| Other revenues | 1,219,000 | 1,219,000 | 1,910,564 | | 1,910,564 | 691,564 |
| Investment income | 245,000 | 245,000 | 1,357,168 | | 1,357,168 | 1,112,168 |
| Total Revenues | 31,210,574 | 31,210,574 | 32,776,019 | | 32,776,019 | 1,565,445 |
| Expenditures: | | | | | | |
| Operations | 10,241,088 | 10,241,088 | 11,954,219 | $ 61,157 | 12,015,376 | (1,774,288) |
| Maintenance | 5,382,221 | 5,382,221 | 5,212,699 | 130,638 | 5,343,337 | 38,884 |
| Administration | 3,144,494 | 3,144,494 | 3,150,430 | 22,365 | 3,172,795 | (28,301) |
| Laboratory and pretreatment works | 1,316,408 | 1,316,408 | 1,189,057 | 16,700 | 1,205,757 | 110,651 |
| Debt service | 12,908,942 | 12,908,942 | 12,423,415 | - | 12,423,415 | 485,527 |
| Total Expenditures | 32,993,153 | 32,993,153 | 33,929,820 | $ 230,860 | 34,160,680 | (1,167,527) |
| Other Financing Uses: | | | | | | |
| Transfers out | (500,000) | (500,000) | (500,000) | | (500,000) | - |
| Total Other Financing Uses | (500,000) | (500,000) | (500,000) | | (500,000) | - |
| (Deficiency) Excess of Revenues Over Expenditures and Other Financing Uses | (2,282,579) | (2,282,579) | $ (1,653,801) | | $ (1,884,661) | $ 397,918 |
| Other Budgetary Items: | | | | | | |
| Prior year encumbrances | 412,579 | 412,579 | | | | |
| Free cash | 1,870,000 | 1,870,000 | | | | |
| Total Other Budgetary Items | 2,282,579 | 2,282,579 | | | | |
| Net Budget | $ - | $ - | | | | |

See notes to required supplementary information.

See accompanying independent auditors' report.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

An annual budget is legally adopted by the District. The District's Engineer-Director/Treasurer oversees the budgeting process, which is presented to the Board of Directors for approval the first calendar quarter of each year for the subsequent fiscal year, which commences on July 1st.

The District's annual budget is prepared on a basis of accounting other than GAAP. The "actual budgetary amounts" column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide meaningful comparison to the adopted budget. A complete reconciliation is provided below:

| | Basis of Accounting Differences | Fund Perspective Differences | Total |
|---|---|---|---|
| Revenues — budgetary basis | | | $ 32,776,019 |
| On-behalf pension payments | $ 477,408 | $ - | 477,408 |
| Operating and Nonoperating Revenues — GAAP basis | $ 477,408 | $ - | $ 33,253,427 |
| Expenses — budgetary basis | | | $ 33,929,820 |
| On-behalf pension payments | $ 477,408 | $ - | 477,408 |
| Noncash OPEB and pension expenses | (527,303) | - | (527,303) |
| Principal paydowns on long-term debt | (8,693,730) | - | (8,693,730) |
| Capitalized equipment purchases | (1,871,576) | - | (1,871,576) |
| Depreciation and amortization expenses | 9,020,410 | - | 9,020,410 |
| Operating and Nonoperating Expenses — GAAP basis | $ (1,594,791) | $ - | $ 32,335,029 |