

TOWN OF LUDLOW, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

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Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Ludlow, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ludlow, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's 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 opinions 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ludlow, Massachusetts, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB Schedules appearing on pages 60 to 63 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

May 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Ludlow, we offer readers this narrative overview and analysis of the financial activities of the Town of Ludlow for the fiscal year ended June 30, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Ludlow's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the Town'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 taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include golf, landfill and sewer activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, on in more detail. Specifically, enterprise funds are used to account for golf, landfill and sewer operations, which are considered major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of liabilities and deferred inflows exceeded assets and deferred outflows by \$(83,452,905) (i.e., net position), a change of \$(3,587,119) in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$8,373,845, a change of \$(1,176,682) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,212,103, a change of \$(594,430) in comparison with the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 18,491,036	\$ 21,230,372	\$ 1,776,384	\$ 1,935,904	\$ 20,267,420	\$ 23,166,276
Capital assets	44,488,954	46,501,448	10,026,573	10,271,522	54,515,527	56,772,970
Total assets	<u>62,979,990</u>	<u>67,731,820</u>	<u>11,802,957</u>	<u>12,207,426</u>	<u>74,782,947</u>	<u>79,939,246</u>
Deferred outflows of resources	6,817,558	6,829,782	86,348	91,015	6,903,906	6,920,797
Long-term liabilities outstanding	125,333,700	84,682,730	7,315,613	6,111,160	132,649,313	90,793,890
Other liabilities	<u>8,410,589</u>	<u>9,992,554</u>	<u>304,187</u>	<u>315,715</u>	<u>8,714,776</u>	<u>10,308,269</u>
Total liabilities	133,744,289	94,675,284	7,619,800	6,426,875	141,364,089	101,102,159
Deferred inflows of resources	22,865,380	269,519	910,289	1,208	23,775,669	270,727
Net position:						
Invested in capital assets, net	35,023,490	35,927,523	6,273,896	6,253,828	41,297,386	42,181,351
Restricted	5,243,822	5,199,001	-	-	5,243,822	5,199,001
Unrestricted	<u>(127,079,433)</u>	<u>(61,509,725)</u>	<u>(2,914,680)</u>	<u>(383,470)</u>	<u>(129,994,113)</u>	<u>(61,893,195)</u>
Total net position	<u>\$ (86,812,121)</u>	<u>\$ (20,383,201)</u>	<u>\$ 3,359,216</u>	<u>\$ 5,870,358</u>	<u>\$ (83,452,905)</u>	<u>\$ (14,512,843)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(83,452,905), a change of \$(3,587,119) in comparison with the restated prior year.

By far the largest portion of net position, \$41,297,386 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital 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.

An additional portion of net position, \$5,243,822 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(127,079,433) in governmental activities and \$(2,914,680) in business-type activities caused primarily by recording net pension and OPEB liabilities.

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,426,175	\$ 4,454,122	\$ 2,384,592	\$ 2,268,979	\$ 6,810,767	\$ 6,723,101
Operating grants and contributions	25,656,532	24,713,804	-	-	25,656,532	24,713,804
Capital grants and contributions	555,351	887,507	-	-	555,351	887,507
General revenues:						
Property taxes	38,540,218	36,723,215	-	-	38,540,218	36,723,215
Excises	2,718,044	2,614,342	-	-	2,718,044	2,614,342
Penalties, interest on taxes	1,983,720	1,996,828	-	-	1,983,720	1,996,828
Grants and contributions not restricted	3,423,408	3,288,684	-	-	3,423,408	3,288,684
Investment income	14,553	33,710	6,114	2,026	20,667	35,736
Other	212,807	252,492	-	-	212,807	252,492
Total Revenues	<u>77,530,808</u>	<u>74,964,704</u>	<u>2,390,706</u>	<u>2,271,005</u>	<u>79,921,514</u>	<u>77,235,709</u>
Expenses:						
General government	4,233,137	4,546,941	-	-	4,233,137	4,546,941
Public safety	11,854,645	12,012,496	-	-	11,854,645	12,012,496
Education	55,203,355	55,731,258	-	-	55,203,355	55,731,258
Public works	5,830,177	5,890,198	-	-	5,830,177	5,890,198
Health and human services	1,433,379	1,564,309	-	-	1,433,379	1,564,309
Culture and recreation	1,341,457	1,462,433	-	-	1,341,457	1,462,433
Interest on long-term debt	265,901	364,535	-	-	265,901	364,535
Intergovernmental	784,318	759,642	-	-	784,318	759,642
Golf operations	-	-	746,568	762,151	746,568	762,151
Landfill operations	-	-	750	6,419	750	6,419
Sewer operations	-	-	1,814,946	1,814,015	1,814,946	1,814,015
Total Expenses	<u>80,946,369</u>	<u>82,331,812</u>	<u>2,562,264</u>	<u>2,582,585</u>	<u>83,508,633</u>	<u>84,914,397</u>
Change in net position before transfers	(3,415,561)	(7,367,108)	(171,558)	(311,580)	(3,587,119)	(7,678,688)
Transfer in / (out)	<u>(98,771)</u>	<u>(187,234)</u>	<u>98,771</u>	<u>187,234</u>	<u>-</u>	<u>-</u>
Change in net position	(3,514,332)	(7,554,342)	(72,787)	(124,346)	(3,587,119)	(7,678,688)
Net position - beginning of year, as restated	<u>(83,297,789)</u>	<u>(12,828,859)</u>	<u>3,432,003</u>	<u>5,994,704</u>	<u>(79,865,786)</u>	<u>(6,834,155)</u>
Net position - end of year	<u>\$ (86,812,121)</u>	<u>\$ (20,383,201)</u>	<u>\$ 3,359,216</u>	<u>\$ 5,870,358</u>	<u>\$ (83,452,905)</u>	<u>\$ (14,512,843)</u>

Fiscal year 2017 amounts reported above were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(3,514,332). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,928,077)
Major fund - School capital projects revenues and transfers in excess of expenditures	296,558
Non-major fund revenues and transfers in excess of expenditures and transfers out	454,837
Depreciation expense in excess of principal debt service, net of bond refunding	(484,959)
Bond issuance	(2,140,000)
Capital assets purchases, net of dispositions	940,065
Capital lease payment, less capital lease issuance	74,287
Net pension liability increase, net of deferrals	(2,103,269)
Net OPEB liability increase, net of deferrals	1,276,300
Other timing differences	99,926
Total	<u>\$ (3,514,332)</u>

Business-Type Activities. Business-type activities for the year resulted in a decrease in net position of \$(72,787), primarily relating to the sewer fund. Key elements of this change are as follows:

Golf operations	\$ (52,551)
Landfill operations	681
Sewer operations	<u>(20,917)</u>
Total	<u>\$ (72,787)</u>

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,373,845, a change of \$(1,176,682) in comparison with the prior year. This change was the result of:

General fund operations, as discussed below	\$ (1,928,077)
Major fund - School capital projects revenues and transfers in excess of expenditures	296,558
Non-major fund revenues and transfers in excess of expenditures and transfers out	<u>454,837</u>
Total	<u>\$ (1,176,682)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,212,103, while total fund balance was \$4,985,802. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned - general fund	\$ 1,094,088	\$ 835,684	\$ 258,404	1.6%
Unassigned - stabilization fund	<u>2,118,015</u>	<u>2,970,849</u>	<u>(852,834)</u>	<u>3.1%</u>
Total unassigned fund balance	\$ 3,212,103	\$ 3,806,533	\$ (594,430)	4.7%
Total fund balance	\$ 4,985,802	\$ 6,913,879	\$ (1,928,077)	7.2%

The fund balance of the general fund changed by \$(1,928,077) during the current fiscal year. Key factors in this change are as follows:

Revenues (on a budgetary basis) were more than anticipated	\$ 211,259
Expenditures were under budget	487,526
Property tax revenue collected was more than budget	241,113
Expenditures in the current year, funded by a previous year budget	(836,932)
Current year expenditure carryforwards to be expended in a subsequent year	767,537
Use of surplus, prior year encumbrances, overlay surplus and debt reserve in funding appropriations	(2,358,129)
Prior year expenses (snow and ice deficit) raised in the current year	456,995
Other GAAP accruals	(44,612)
Change in Stabilization fund	<u>(852,834)</u>
	<u>\$ (1,928,077)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Total net position of the enterprise funds at the end of the year amounted to \$3,359,216, a change of \$(72,787) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$325,877, which consists of:

Unpaid bills	\$ 177
Chapter 90 (highway grant) deficit	25,700
Increase fringe benefit appropriation	<u>300,000</u>
	<u>\$ 325,877</u>

All of this increase was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$54,515,527 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense for governmental activities	\$ (2,952,559)
Depreciation expense for business-type activities	(306,264)
Land takings for Center Street project	381,400
Purchase of a DPW truck, financed through a capital lease	217,296
Purchase of three vehicles for the Police department	96,469
West Street paving project	81,167
Center Street project - architecture and engineering	50,297
Breathing air compressor for Fire department	46,364
New wheelchair lift for High School	37,085
DPW building HVAC system replacement	23,508
HVAC computer system at Community Center	20,030
Land acquired through tax foreclosure	10,463
Purchase of sewer truck	61,315
Disposal of two parcels of land sold at auction	<u>(24,014)</u>
	<u>\$ (2,257,443)</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$11,006,145, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Ludlow'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. Kimberly Collins
Town Accountant
Town of Ludlow
488 Chapin Street
Ludlow, MA 01056

TOWN OF LUDLOW, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 12,115,072	\$ 1,667,860	\$ 13,782,932
Investments	3,763,715	-	3,763,715
Receivables, net of allowance for uncollectibles:			
Property taxes	567,155	-	567,155
Excises	223,992	-	223,992
User fees	-	108,524	108,524
Departmental and other	405,688	-	405,688
Intergovernmental	972,946	-	972,946
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	442,468	-	442,468
Land and construction in progress	2,421,363	1,107,900	3,529,263
Capital assets, net of accumulated depreciation	42,067,591	8,918,673	50,986,264
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	6,754,232	86,205	6,840,437
Related to OPEB	3,326	143	3,469
Other	60,000	-	60,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	69,797,548	11,889,305	81,686,853
LIABILITIES			
Current:			
Warrants payable	714,676	-	714,676
Accounts payable	809,724	266,088	1,075,812
Accrued payroll and withholdings	4,210,031	10,020	4,220,051
Accrued interest payable	31,515	28,079	59,594
Note payable	2,620,000	-	2,620,000
Other current liabilities	24,643	-	24,643
Current portion of long-term liabilities:			
Bonds payable	1,861,964	269,604	2,131,568
Other	228,652	-	228,652
Noncurrent:			
Bonds payable, net of current portion	5,391,500	3,483,077	8,874,577
Net pension liability	47,605,853	607,593	48,213,446
Net OPEB liability	68,864,458	2,955,339	71,819,797
Other, net of current portion	1,381,273	-	1,381,273
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	2,354,243	30,047	2,384,290
Related to OPEB	20,511,137	880,242	21,391,379
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	156,609,669	8,530,089	165,139,758
NET POSITION			
Invested in capital assets, net of related debt	35,023,490	6,273,896	41,297,386
Restricted for:			
State and federal grants	3,725,117	-	3,725,117
Permanent funds:			
Nonexpendable	1,371,281	-	1,371,281
Expendable	147,424	-	147,424
Unrestricted	(127,079,433)	(2,914,680)	(129,994,113)
TOTAL NET POSITION	\$ (86,812,121)	\$ 3,359,216	\$ (83,452,905)

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,233,137	\$ 593,111	\$ 15,174	\$ -	\$ (3,624,852)	\$ -	\$ (3,624,852)
Public safety	11,854,645	2,043,742	120,466	-	(9,690,437)	-	(9,690,437)
Education	55,203,355	1,030,026	25,222,679	-	(28,950,650)	-	(28,950,650)
Public works	5,830,177	287,537	7,700	555,351	(4,979,589)	-	(4,979,589)
Health and human services	1,433,379	352,852	57,312	-	(1,023,215)	-	(1,023,215)
Culture and recreation	1,341,457	118,907	233,201	-	(989,349)	-	(989,349)
Interest	265,901	-	-	-	(265,901)	-	(265,901)
Intergovernmental	784,318	-	-	-	(784,318)	-	(784,318)
Total Governmental Activities	80,946,369	4,426,175	25,656,532	555,351	(50,308,311)	-	(50,308,311)
Business-Type Activities:							
Golf operations	746,568	693,801	-	-	-	(52,767)	(52,767)
Landfill operations	750	-	-	-	-	(750)	(750)
Sewer operations	1,814,946	1,690,791	-	-	-	(124,155)	(124,155)
Total Business-Type Activities	2,562,264	2,384,592	-	-	-	(177,672)	(177,672)
Total All	<u>\$ 83,508,633</u>	<u>\$ 6,810,767</u>	<u>\$ 25,656,532</u>	<u>\$ 555,351</u>	(50,308,311)	(177,672)	(50,485,983)
General Revenues and Transfers:							
Property taxes					38,540,218	-	38,540,218
Excises					2,718,044	-	2,718,044
Penalties, interest and other taxes					1,983,720	-	1,983,720
Grants and contributions not restricted to specific programs					3,423,408	-	3,423,408
Investment income					14,553	6,114	20,667
Miscellaneous					212,807	-	212,807
Transfers in (out)					(98,771)	98,771	-
Total general revenues and transfers					46,793,979	104,885	46,898,864
Change in Net Position					(3,514,332)	(72,787)	(3,587,119)
Net Position:							
Beginning of year, as restated					(83,297,789)	3,432,003	(79,865,786)
End of year					<u>\$ (86,812,121)</u>	<u>\$ 3,359,216</u>	<u>\$ (83,452,905)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	<u>General</u>	<u>Capital Project Fund (School)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 7,328,153	\$ 970,166	\$ 3,816,753	\$ 12,115,072
Investments	2,328,443	-	1,435,272	3,763,715
Receivables:				
Property taxes	598,613	-	-	598,613
Tax liens and foreclosures	587,357	-	-	587,357
Excises	251,943	-	-	251,943
Departmental and other	517,385	-	66,367	583,752
Intergovernmental	342,121	-	630,825	972,946
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ <u>11,954,015</u>	\$ <u>970,166</u>	\$ <u>5,949,217</u>	\$ <u>18,873,398</u>
LIABILITIES				
Warrants payable	\$ 713,458	\$ -	\$ 1,218	\$ 714,676
Accounts payable	-	-	809,724	809,724
Accrued payroll and withholdings	4,195,250	-	14,781	4,210,031
Note payable	-	2,200,000	420,000	2,620,000
Other liabilities	5,393	-	19,250	24,643
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	4,914,101	2,200,000	1,264,973	8,379,074
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	2,054,112	-	66,367	2,120,479
FUND BALANCES				
Non-spendable	-	-	1,371,281	1,371,281
Restricted	-	-	3,926,553	3,926,553
Committed	538,795	-	508,177	1,046,972
Assigned	1,234,904	-	-	1,234,904
Unassigned	3,212,103	(1,229,834)	(1,188,134)	794,135
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	4,985,802	(1,229,834)	4,617,877	8,373,845
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>11,954,015</u>	\$ <u>970,166</u>	\$ <u>5,949,217</u>	\$ <u>18,873,398</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND
 BALANCES TO NET POSITION OF GOVERNMENTAL
 ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total Governmental Fund Balances	\$	8,373,845
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 		44,488,954
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles) and are not deferred until collection. 		1,738,117
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, net pension and net OPEB liabilities (net of deferrals) are not due and payable in the current period and, therefore are not reported in the governmental funds. 		(139,831,597)
<ul style="list-style-type: none"> • Other liabilities 		<u>(1,581,440)</u>
Net Position of Governmental Activities	\$	<u>(86,812,121)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Capital Project Fund (School)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 38,541,154	\$ -	\$ -	\$ 38,541,154
Excises	2,707,734	-	-	2,707,734
Penalties, interest and other taxes	1,983,720	-	-	1,983,720
Charges for services	1,977,812	-	2,020,544	3,998,356
Intergovernmental	21,959,388	40,932	4,272,678	26,272,998
Licenses and permits	371,350	-	-	371,350
Fines and forfeitures	41,570	-	-	41,570
Investment income	4,732	-	9,821	14,553
Miscellaneous	11,954	-	183,935	195,889
	<u>67,599,414</u>	<u>40,932</u>	<u>6,486,978</u>	<u>74,127,324</u>
Total Revenues				
Expenditures:				
Current:				
General government	3,216,830	-	280,084	3,496,914
Public safety	8,179,448	-	631,515	8,810,963
Education	34,342,767	6,458	5,474,508	39,823,733
Public works	3,826,231	-	1,344,232	5,170,463
Health and human services	1,033,290	-	107,453	1,140,743
Culture and recreation	818,309	-	45,943	864,252
Employee benefits	14,752,143	-	-	14,752,143
Debt service	2,103,334	603,009	12,659	2,719,002
Intergovernmental	784,318	-	-	784,318
	<u>69,056,670</u>	<u>609,467</u>	<u>7,896,394</u>	<u>77,562,531</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	(1,457,256)	(568,535)	(1,409,416)	(3,435,207)
Other Financing Sources (Uses):				
Bond proceeds	-	275,000	1,865,000	2,140,000
Proceeds of refunding bonds	-	546,660	1,188,477	1,735,137
Payment to refunding agent	-	(546,660)	(1,188,477)	(1,735,137)
Capital lease proceeds	-	-	217,296	217,296
Transfers in	246,743	590,093	50,720	887,556
Transfers out	(717,564)	-	(268,763)	(986,327)
	<u>(470,821)</u>	<u>865,093</u>	<u>1,864,253</u>	<u>2,258,525</u>
Total Other Financing Sources (Uses)				
Change in fund balance	(1,928,077)	296,558	454,837	(1,176,682)
Fund Balance at Beginning of Year	<u>6,913,879</u>	<u>(1,526,392)</u>	<u>4,163,040</u>	<u>9,550,527</u>
Fund Balance at End of Year	<u>\$ 4,985,802</u>	<u>\$ (1,229,834)</u>	<u>\$ 4,617,877</u>	<u>\$ 8,373,845</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Changes In Fund Balances - Total Governmental Funds	\$ (1,176,682)																								
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital asset purchases</td> <td style="text-align: right;">964,079</td> </tr> <tr> <td>Capital asset dispositions, net</td> <td style="text-align: right;">(24,014)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,952,559)</td> </tr> </table> • Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, (net of allowance). 13,810 • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and changes in other long-term liabilities consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of bonds</td> <td style="text-align: right;">1,812,600</td> </tr> <tr> <td>Bond proceeds</td> <td style="text-align: right;">(2,140,000)</td> </tr> <tr> <td>Effect of bond refunding</td> <td style="text-align: right;">655,000</td> </tr> <tr> <td>Repayments of capital lease obligations</td> <td style="text-align: right;">291,583</td> </tr> <tr> <td>Issuance of capital lease</td> <td style="text-align: right;">(217,296)</td> </tr> <tr> <td>Amortization of deferred loss on early retirement of debt</td> <td style="text-align: right;">(20,000)</td> </tr> </table> • Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(2,103,269)</td> </tr> <tr> <td>Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">1,276,300</td> </tr> <tr> <td>Other</td> <td style="text-align: right; border-top: 1px solid black;">106,116</td> </tr> </table> 		Capital asset purchases	964,079	Capital asset dispositions, net	(24,014)	Depreciation	(2,952,559)	Repayments of bonds	1,812,600	Bond proceeds	(2,140,000)	Effect of bond refunding	655,000	Repayments of capital lease obligations	291,583	Issuance of capital lease	(217,296)	Amortization of deferred loss on early retirement of debt	(20,000)	Net pension liability and related deferred outflows and inflows of resources	(2,103,269)	Net OPEB liability and related deferred outflows and inflows of resources	1,276,300	Other	106,116
Capital asset purchases	964,079																								
Capital asset dispositions, net	(24,014)																								
Depreciation	(2,952,559)																								
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Bond proceeds	(2,140,000)																								
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Net OPEB liability and related deferred outflows and inflows of resources	1,276,300																								
Other	106,116																								
Change In Net Position of Governmental Activities	\$ <u>(3,514,332)</u>																								

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 38,300,041	\$ 38,300,041	\$ 38,300,041	\$ -
Excise	2,703,000	2,703,000	2,707,734	4,734
Penalties, interest and other taxes	1,950,000	1,950,000	1,983,720	33,720
Charges for services	1,845,752	1,845,752	1,977,812	132,060
Intergovernmental	18,257,074	18,257,074	18,312,926	55,852
Licenses and permits	600,000	600,000	371,350	(228,650)
Fines and forfeits	35,000	35,000	41,570	6,570
Investment income	14,000	14,000	20,276	6,276
Miscellaneous	-	-	11,954	11,954
Transfers in	1,658,000	1,658,000	1,846,743	188,743
Total Revenues and Transfers In	65,362,867	65,362,867	65,574,126	211,259
Expenditures and Transfers Out:				
General government	3,384,169	3,335,436	3,215,288	120,148
Public safety	8,165,823	8,249,630	8,080,219	169,411
Education	30,717,644	30,717,640	30,695,418	22,222
Public works	3,777,216	3,779,658	3,800,809	(21,151)
Health and human services	1,137,287	1,107,287	1,052,458	54,829
Culture and recreation	891,972	891,972	819,413	72,559
Employee benefits	14,501,453	14,802,646	14,744,944	57,702
Debt service	2,183,526	2,173,526	2,103,334	70,192
Intergovernmental	724,460	724,460	784,318	(59,858)
Transfers out	864,481	891,653	890,181	1,472
Total Expenditures and Transfers Out	66,348,031	66,673,908	66,186,382	487,526
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(985,164)	(1,311,041)	(612,256)	698,785
Other Financing Sources/Uses:				
Use of free cash:				
Operating budget	100,000	425,877	-	(425,877)
Capital budget	240,065	240,065	-	(240,065)
Transfer to Stabilization fund	762,710	762,710	-	(762,710)
Other sources - unspent special articles and debt reserve	339,384	339,384	-	(339,384)
Other use - snow and ice deficit	(456,995)	(456,995)	-	456,995
Total Other Financing Sources/Uses	985,164	1,311,041	-	(1,311,041)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (612,256)	\$ (612,256)

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Golf Fund</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	
ASSETS				
Current:				
Cash and short-term investments	\$ 43,869	\$ 55,994	\$ 1,567,997	\$ 1,667,860
User fee receivable	-	-	108,524	108,524
Total current assets	43,869	55,994	1,676,521	1,776,384
Noncurrent:				
Land	1,107,900	-	-	1,107,900
Capital assets, net of accumulated depreciation	514,769	-	8,403,904	8,918,673
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	69,073	-	17,132	86,205
Related to OPEB	15	-	128	143
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,735,626	55,994	10,097,685	11,889,305
LIABILITIES				
Current:				
Accounts payable	-	-	266,088	266,088
Accrued payroll	7,513	-	2,507	10,020
Accrued interest payable	-	-	28,079	28,079
Bonds payable	-	-	269,604	269,604
Noncurrent:				
Bonds payable, net of current portion	-	-	3,483,077	3,483,077
Net pension liability	486,845	-	120,748	607,593
Net OPEB liability	300,357	-	2,654,982	2,955,339
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	24,076	-	5,971	30,047
Related to OPEB	89,461	-	790,781	880,242
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	908,252	-	7,621,837	8,530,089
NET POSITION				
Invested in capital assets, net of related debt	1,622,673	-	4,651,223	6,273,896
Unrestricted	(795,299)	55,994	(2,175,375)	(2,914,680)
TOTAL NET POSITION	\$ 827,374	\$ 55,994	\$ 2,475,848	\$ 3,359,216

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Golf Fund</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	
Operating Revenues:				
Charges for services	\$ 693,801	\$ -	\$ 1,690,791	\$ 2,384,592
Total Operating Revenues	693,801	-	1,690,791	2,384,592
Operating Expenses:				
Salaries and wages	331,533	-	145,589	477,122
Operating expenses	281,372	-	1,124,548	1,405,920
Depreciation	46,726	-	259,538	306,264
Administration	86,937	-	80,422	167,359
Other	-	750	128,033	128,783
Total Operating Expenses	<u>746,568</u>	<u>750</u>	<u>1,738,130</u>	<u>2,485,448</u>
Operating (Loss)	(52,767)	(750)	(47,339)	(100,856)
Nonoperating Revenues (Expenses):				
Investment income	216	1,431	4,467	6,114
Interest expense	-	-	(76,816)	(76,816)
Total Nonoperating Revenues (Expenses), Net	<u>216</u>	<u>1,431</u>	<u>(72,349)</u>	<u>(70,702)</u>
Income (Loss) Before Transfers	(52,551)	681	(119,688)	(171,558)
Transfer in	-	-	98,771	98,771
Change in Net Position	(52,551)	681	(20,917)	(72,787)
Net Position at Beginning of Year, as restated	<u>879,925</u>	<u>55,313</u>	<u>2,496,765</u>	<u>3,432,003</u>
Net Position at End of Year	<u>\$ 827,374</u>	<u>\$ 55,994</u>	<u>\$ 2,475,848</u>	<u>\$ 3,359,216</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			Total
	Golf Fund	Landfill Fund	Sewer Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 693,801	\$ -	\$ 1,706,383	\$ 2,400,184
Payments to vendors and employees	(703,688)	(750)	(1,538,338)	(2,242,776)
Net Cash Provided by / (Used for) Operating Activities	(9,887)	(750)	168,045	157,408
<u>Cash Flows From Non-Capital Financing Activities:</u>				
Transfers in	-	-	98,771	98,771
Net Cash Provided by Non-Capital Financing Activities	-	-	98,771	98,771
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition of capital assets	-	-	(61,315)	(61,315)
Payment of long term debt principal	-	-	(265,013)	(265,013)
Interest paid	-	-	(79,893)	(79,893)
Net Cash (Used for) Capital and Related Financing Activities	-	-	(406,221)	(406,221)
<u>Cash Flows From Investing Activities:</u>				
Investment income	216	1,431	4,467	6,114
Net Cash Provided by Investing Activities	216	1,431	4,467	6,114
Net Change in Cash and Short-Term Investments	(9,671)	681	(134,938)	(143,928)
Cash and Short Term Investments, Beginning of Year	53,540	55,313	1,702,935	1,811,788
Cash and Short Term Investments, End of Year	<u>\$ 43,869</u>	<u>\$ 55,994</u>	<u>\$ 1,567,997</u>	<u>\$ 1,667,860</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (52,767)	\$ (750)	\$ (47,339)	\$ (100,856)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	46,726	-	259,538	306,264
Changes in assets, liabilities and deferred outflows/inflows:				
Deferred outflows - related to pensions	3,475	-	1,335	4,810
Deferred outflows - related to OPEB	(15)	-	(128)	(143)
Accounts receivable	-	-	15,592	15,592
Accounts payable and accrued liabilities	(283)	-	(8,168)	(8,451)
Net pension liability	(24,584)	-	(9,433)	(34,017)
Net OPEB liability	(95,013)	-	(839,859)	(934,872)
Deferred inflows - related to pensions	23,113	-	5,726	28,839
Deferred inflows - related to OPEB	89,461	-	790,781	880,242
Net Cash Provided by / (Used for) Operating Activities	<u>\$ (9,887)</u>	<u>\$ (750)</u>	<u>\$ 168,045</u>	<u>\$ 157,408</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018

	<u>Agency Funds</u>	<u>OPEB Trust Fund</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 171,432	\$ 31
Investments	<u>-</u>	<u>245,889</u>
Total Assets	<u>\$ 171,432</u>	<u>\$ 245,920</u>
<u>LIABILITIES</u>		
Deposits held in custody	\$ 47,025	\$ -
Student activity funds	88,244	-
Other liabilities	<u>36,163</u>	<u>-</u>
Total Liabilities	<u>171,432</u>	<u>-</u>
<u>NET POSITION</u>		
Restricted for OPEB purposes	<u>-</u>	<u>245,920</u>
Total Net Position	<u>\$ -</u>	<u>\$ 245,920</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF LUDLOW MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>OPEB Trust Fund</u>
Additions:	
Employer contributions	\$ 2,570,130
Investment income	<u>10,412</u>
Total additions	2,580,542
Deductions:	
Benefit payments to plan members and beneficiaries	<u>2,520,130</u>
Total deductions	<u>2,520,130</u>
Net increase	60,412
Net position:	
Beginning of year	<u>185,508</u>
End of year	\$ <u><u>245,920</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Ludlow, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Ludlow (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2018, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and inter-governmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *capital project fund – School* is used to account for various school related construction projects funded through bonding.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *golf fund* is used to account for operations of the Town's municipal golf course.
- The *landfill fund* represents the residual balance of bond proceeds and other revenues which were used to close the Town's landfill in prior years. The fund accumulates interest which is used to fund monitoring costs. Any remaining balance is anticipated to be used for future projects related to the Town's transfer station.
- The *sewer fund* is used to account for activity related to the Town's sewer operations.

The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.
- The *OPEB (other post-employment benefits) trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary

funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at fair value, except certificates of deposit, which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$1,326,803.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30
Buildings	40
Building improvements	10 - 20
Vehicles	3 - 5 - 10
Office equipment	3 - 5 - 10
Computer equipment	3 - 5
Infrastructure	50

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned

fund balance indicates that portion of fund balance that is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 67,599,414	\$ 69,056,670
Other financing sources/uses (GAAP basis)	<u>246,743</u>	<u>717,564</u>
Subtotal (GAAP basis)	67,846,157	69,774,234
Reverse the effect of adding Stabilization fund to General fund per GASB 54	1,615,544	762,710
Adjust tax revenue to accrual basis	(241,113)	
Reverse beginning of year appropriation carry- forwards from expenditures	-	(836,932)
Add end of year appropriation carryforwards to expenditures	-	767,537
To reverse the effect of GAAP accruals	-	(44,612)
To reverse the effect of debt reserve funds used as part of debt refunding	-	(590,093)
Reverse the effect on non-budgeted State contributions for teachers retirement	<u>(3,646,462)</u>	<u>(3,646,462)</u>
Budgetary basis	<u>\$ 65,574,126</u>	<u>\$ 66,186,382</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and ice (\$145,089)

This deficit is being funded through taxation in fiscal year 2019.

E. Deficit Fund Equity

Certain individual funds were in deficit as of June 30, 2018:

Capital project fund - School	\$ 1,229,834
<u>Non-major Funds</u>	
Title I FY18	\$ 35,226
Teacher Quality FY18	18,786
Chapin St School Construction	758,107
Chapin St School Feasibility	<u>376,015</u>
	<u>\$ 1,188,134</u>

It is anticipated that the deficits in these funds will be eliminated through future bond issues, intergovernmental revenues and/or transfers from other funds.

3. **Cash and Short-Term Investments**

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws (MGL) Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's investment policy manages custodial credit risk by limiting deposits in accordance with MGL.

As of June 30, 2018, none of the Town's bank balance of \$14,105,248 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the Town's name.

4. **Investments**

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Laws (MGL) Chapter 44, Section 55 limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town's investment policy, adopted in fiscal year 2009, limits investments (other than U.S. Treasury/Agency obligations and State pool – MMDT) as follows:

Certificates of deposit – No limit if fully collateralized through a third-party agreement; otherwise limited to each institution's insurance coverage (FDIC, DIFM, etc.)

Other unsecured bank deposits – deposits that do not fit in another category are limited to 5% of the institution's assets and no more than 10% of the government's cash. The credit worthiness of the institution is evaluated by monitoring established bank credit reporting systems.

Trust fund investments – Not more than 15% may be invested in bank stock and insurance company stock and no more than 1.5% of these funds may be invested in any one bank or insurance company.

Presented below is the actual rating as of year-end for each investment type:

Investment Type	Amount	Exempt From Disclosure	Rating as of year end				
			Aaa	Aa2/Aa3	A1/A2/A3	Baa1/Baa2	Ba1/Ba2
Certificates of deposit	\$ 1,848,603	\$ 1,848,603	\$ -	\$ -	\$ -	\$ -	\$ -
Equity securities	334,037	334,037	-	-	-	-	-
Government securities	1,346,573	-	1,346,573	-	-	-	-
Bond mutual funds (fixed income)	149,009	-	59,919	31,993	20,707	11,275	14,199
Corporate bonds	331,382	-	-	-	287,085	44,297	-
Total investments	\$ 4,009,604	\$ 2,182,640	\$ 1,406,492	\$ 31,993	\$ 307,792	\$ 55,572	\$ 14,199

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

All of the Town's investments of \$4,009,604 are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk by limiting investments to financial instruments contained in Massachusetts' "List of Legal Investments".

C. Concentration of Credit Risk

The Town's investment policy limits the amount that may be invested in any one financial institution, other than U.S. treasuries and government agency obligations and State pools to 10% of the Town's total investments. Additional limitations, depending on the type of institution or funds involved, are described above. Furthermore, MGL Chapter 44, Section 55 limits the amount the Town may have on hand in any bank or trust company to 60% of the capital and surplus of such bank or trust company unless satisfactory security is given.

The Town did not invest in one issuer over 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy limits investment maturities for general (non-trust fund investments) to one year from the date of purchase. There is no maturity limit for trust fund investments.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

Investment Type	Amount	Exempt From Disclosure	Maturity in Years				
			Less than 1 Year	1 - 5	6 - 10	Over 10	Not Specified
Certificates of deposit	\$ 1,848,603	\$ -	\$ 495,675	\$ 1,352,928	\$ -	\$ -	\$ -
Equity securities	334,037	334,037	-	-	-	-	-
Government securities	1,346,573	-	298,767	1,045,059	-	2,747	-
Bond mutual funds (fixed income)	149,009	-	-	60,923	77,088	82	10,916
Corporate bonds	331,382	-	209,232	122,150	-	-	-
Total investments	\$ 4,009,604	\$ 334,037	\$ 1,003,674	\$ 2,581,060	\$ 77,088	\$ 2,829	\$ 10,916

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy does not address foreign currency risk, as it is not expected to apply to the Town's investments.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2018:

Description	Amount	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Federal securities	\$ 1,346,573	\$ -	\$ 1,346,573	\$ -
Bond mutual funds (fixed income)	149,009	-	149,009	-
Corporate bonds	331,382	-	331,382	-
Equity securities	334,037	334,037	-	-
Total	\$ 2,161,001	\$ 334,037	\$ 1,826,964	\$ -

5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Property taxes and excise receivables at June 30, 2018 consists of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes	\$ 555,807	\$ (9,780)	\$ 546,027
Personal property taxes	42,806	(21,678)	21,128
Tax liens	<u>587,357</u>	<u>(144,889)</u>	<u>442,468</u>
Total property taxes	<u>\$ 1,185,970</u>	<u>\$ (176,347)</u>	1,009,623
Less current portion			<u>(567,155)</u>
Noncurrent taxes receivable			<u>\$ 442,468</u>
Motor vehicle excise	\$ 251,535	\$ (27,951)	\$ 223,584
Boat excise	<u>408</u>	<u>-</u>	<u>408</u>
Total excises	<u>\$ 251,943</u>	<u>\$ (27,951)</u>	<u>\$ 223,992</u>
Departmental - ambulance	\$ 507,315	\$ (177,560)	\$ 329,755
Departmental - police outside detail	53,692	-	53,692
Departmental - other	<u>22,745</u>	<u>(504)</u>	<u>22,241</u>
Total departmental	<u>\$ 583,752</u>	<u>\$ (178,064)</u>	<u>\$ 405,688</u>

6. Intergovernmental Receivables

The balance reported in governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

7. Capital Assets

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

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 3,543,725	\$ -	\$ -	\$ -	\$ 3,543,725
Buildings and improvements	51,273,355	20,030	-	2,940,061	54,233,446
Machinery, equipment, and furnishings	9,181,122	83,449	-	-	9,264,571
Vehicles	3,448,002	313,765	-	-	3,761,767
Infrastructure	30,689,454	-	-	228,371	30,917,825
Total capital assets, being depreciated	98,135,658	417,244	-	3,168,432	101,721,334
Less accumulated depreciation for:					
Land improvements	(2,049,581)	(173,416)	-	-	(2,222,997)
Buildings and improvements	(21,479,186)	(1,414,449)	-	-	(22,893,635)
Machinery, equipment, and furnishings	(8,208,996)	(228,725)	-	-	(8,437,721)
Vehicles	(2,605,121)	(347,993)	-	-	(2,953,114)
Infrastructure	(22,358,300)	(787,976)	-	-	(23,146,276)
Total accumulated depreciation	(56,701,184)	(2,952,559)	-	-	(59,653,743)
Total capital assets, being depreciated, net	41,434,474	(2,535,315)	-	3,168,432	42,067,591
Capital assets, not being depreciated:					
Land	1,206,482	10,463	(24,014)	683,525	1,876,456
Construction in progress (CIP)	3,860,492	536,372	-	(3,851,957)	544,907
Total capital assets, not being depreciated	5,066,974	546,835	(24,014)	(3,168,432)	2,421,363
Governmental activities capital assets, net	\$ 46,501,448	\$ (1,988,480)	\$ (24,014)	\$ -	\$ 44,488,954
Business-Type Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 174,565	\$ -	\$ -	\$ -	\$ 174,565
Buildings and improvements	481,602	-	-	-	481,602
Machinery, equipment, and furnishings	1,090,908	-	-	-	1,090,908
Vehicles	518,010	61,315	-	-	579,325
Infrastructure	11,309,742	-	-	-	11,309,742
Total capital assets, being depreciated	13,574,827	61,315	-	-	13,636,142
Less accumulated depreciation for:					
Land improvements	(150,033)	(2,918)	-	-	(152,951)
Buildings and improvements	(395,715)	(5,847)	-	-	(401,562)
Machinery, equipment, and furnishings	(948,227)	(26,691)	-	-	(974,918)
Vehicles	(515,696)	(14,579)	-	-	(530,275)
Infrastructure	(2,401,534)	(256,229)	-	-	(2,657,763)
Total accumulated depreciation	(4,411,205)	(306,264)	-	-	(4,717,469)
Total capital assets, being depreciated, net	9,163,622	(244,949)	-	-	8,918,673
Capital assets, not being depreciated:					
Land	1,107,900	-	-	-	1,107,900
Total capital assets, not being depreciated	1,107,900	-	-	-	1,107,900
Business-type activities capital assets, net	\$ 10,271,522	\$ (244,949)	\$ -	\$ -	\$ 10,026,573

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 88,173
Public safety	307,143
Education	1,226,052
Public works	1,046,932
Human services	32,754
Culture and recreation	<u>251,505</u>
Total depreciation expense - governmental activities	<u>\$ 2,952,559</u>
Business-Type Activities:	
Golf	\$ 46,726
Sewer	<u>259,538</u>
Total depreciation expense - business-type activities	<u>\$ 306,264</u>

8. Deferred Outflow of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

Other deferred outflows of resources consist of the unamortized portion of a deferred loss on debt refunding.

9. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018 as permitted by law. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

10. Notes Payable

The Town had the following note outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2018</u>
Bond anticipation	1.35%	12/8/2017	9/27/2018	<u>\$ 2,620,000</u>

The following summarizes activity in notes payable during fiscal year 2018:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 4,708,000	\$ 2,620,000	\$ (4,708,000)	\$ 2,620,000
Grant anticipation	56,769	-	(56,769)	-
Total Governmental	<u>\$ 4,764,769</u>	<u>\$ 2,620,000</u>	<u>\$ (4,764,769)</u>	<u>\$ 2,620,000</u>

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2020. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2018:

<u>Fiscal Year</u>	<u>Capital Lease</u>
2019	\$ 240,185
2020	131,874
Total payments	372,059
Less amounts representing interest	<u>(15,838)</u>
Present Value of Minimum Lease Payments	<u>\$ 356,221</u>

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2018
<u>Governmental Activities:</u>			
2009 multi-purpose	01/15/19	3.00 - 4.00	\$ 95,964
School renovations (refunding bond)	06/15/21	4.08	3,405,000
2018 refunding of 2002 multi purpose bonds	08/15/20	2.00 - 5.00	997,500
Center St Design	08/15/21	2.00 - 5.00	345,000
2018 refunding of 2007 multi purpose bonds	08/15/22	2.00 - 5.00	375,000
2018 refunding of 2004 multi purpose bonds	08/15/24	2.00 - 5.00	240,000
Center St Land	08/15/27	2.00 - 5.00	485,000
Roofs	08/15/30	2.00 - 5.00	1,310,000
Total Governmental Activities			<u>\$ 7,253,464</u>

Business-Type Activities:

2009 multi-purpose	01/15/19	3.14	\$ 8,892
2018 refunding of 2002 multi purpose bonds	08/15/20	2.00 - 5.00	37,500
2018 refunding of 2007 multi purpose bonds	08/15/22	2.00 - 5.00	100,000
Sewer construction (MWPAT 08-05)	07/15/30	2.00	2,417,334 *
Sewer construction (MWPAT 08-05)	07/15/32	2.00	726,470
Sewer construction (MWPAT 08-05-A)	07/15/36	2.00	462,485
Total Business-Type Activities			<u>\$ 3,752,681</u>

* 13% of this debt is being paid by the general fund to reflect the portion of project costs that benefited the Town's general infrastructure.

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

	<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,861,964	\$ 303,187	\$ 2,165,151	
2020	1,728,000	222,289	1,950,289	
2021	1,738,500	162,281	1,900,781	
2022	410,000	73,769	483,769	
2023	435,000	52,444	487,444	
2024 - 2028	780,000	105,386	885,386	
2029 - 2033	300,000	12,375	312,375	
Total Governmental	<u>\$ 7,253,464</u>	<u>\$ 931,731</u>	<u>\$ 8,185,195</u>	
<u>Business-Type</u>				
2019	\$ 269,604	\$ 76,260	\$ 345,864	
2020	264,384	69,986	334,370	
2021	268,174	63,965	332,139	
2022	261,556	58,085	319,641	
2023	266,539	52,341	318,880	
2024 - 2028	1,311,099	181,914	1,493,013	
2029 - 2033	1,021,303	50,679	1,071,982	
thereafter	90,022	3,626	93,648	
Total Business-Type	<u>\$ 3,752,681</u>	<u>\$ 556,856</u>	<u>\$ 4,309,537</u>	

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands): absences

	Total Balance July 1, 2017 (restated*)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Bonds payable	\$ 7,581	\$ 3,753	\$ (4,080)	\$ 7,254	\$ (1,862)	\$ 5,392
Net pension liability	47,583	23	-	47,606	-	47,606
Net OPEB liability*	90,649	-	(21,784)	68,865	-	68,865
Other:						
Compensated absences	1,355	-	(101)	1,254	-	1,254
Capital lease	430	217	(291)	356	(229)	127
Subtotal Other	1,785	217	(392)	1,610	(229)	1,381
Total Governmental	\$ 147,598	\$ 3,993	\$ (26,256)	\$ 125,335	\$ (2,091)	\$ 123,244
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,018	\$ 138	\$ (403)	\$ 3,753	\$ (270)	\$ 3,483
Net pension liability	642	-	(34)	608	-	608
Net OPEB liability*	3,890	-	(935)	2,955	-	2,955
Total Business-Type	\$ 8,550	\$ 138	\$ (1,372)	\$ 7,316	\$ (270)	\$ 7,046

D. Current Refunding

On November 30, 2017, the Town issued general obligation bonds in the amount of \$3,890,000, which included \$1,750,000 of refunding bonds with an average interest rate 3.50%. The refunding bonds, along with \$127,900 of bond premium and \$590,093 of available funds (debt reserve) were used to refund \$2,405,000 of term bonds with an average interest rate of 3.98%. The term bonds mature on October 15, 2020 and October 1, 2024 and were callable on January 1, 2018. The general obligation bonds were issued at 109% and, after paying issuance costs of \$52,858, the net proceeds were \$1,825,042 (\$1,735,137 governmental funds and \$89,905 business-type activities). The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to pay the principal and accrued interest on the term bonds when they were called on January 1, 2018. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the refunding, the Town reduced its total debt service cash flow requirements by \$157,480, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$101,092.

There was no defeased debt outstanding as of June 30, 2018.

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

14. Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 246,743	\$ 717,564
Capital project fund - School	590,093	-
Nonmajor funds:		
Special revenue funds	28,700	246,743
Capital project funds	-	22,020
Trust funds	22,020	-
Subtotal Nonmajor Funds	50,720	268,763
<u>Business-Type Funds:</u>		
Sewer fund	98,771	-
Grand Total	<u>\$ 986,327</u>	<u>\$ 986,327</u>

15. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance

classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2018:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes the unexpended balance of Town Meeting articles funded by appropriation, funds reserved under State guidelines to be used to offset future debt service and residual balances of capital appropriations funded by general fund appropriation.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, and fund balance (surplus) set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods, stabilization funds set aside by Town Meeting vote and deficit funds.

Following is a breakdown of the Town's fund balances at June 30, 2018:

	General Fund	Capital Project Fund (School)	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 1,371,281	\$ 1,371,281
Total Nonexpendable	-	-	1,371,281	1,371,281
Restricted				
Special revenue funds	-	-	3,779,129	3,779,129
Expendable permanent funds	-	-	147,424	147,424
Total Restricted	-	-	3,926,553	3,926,553
Committed				
Special articles	280,633	-	-	280,633
Debt reserve	258,162	-	-	258,162
Capital projects funded by general fund appropriation	-	-	508,177	508,177
Total Committed	538,795	-	508,177	1,046,972
Assigned				
Encumbrances	486,904	-	-	486,904
Reserved for expenditures	748,000	-	-	748,000
Total Assigned	1,234,904	-	-	1,234,904
Unassigned				
General fund	1,094,088	-	-	1,094,088
Stabilization fund	2,118,015	-	-	2,118,015
Deficit funds	-	(1,229,834)	(1,188,134)	(2,417,968)
Total Unassigned	3,212,103	(1,229,834)	(1,188,134)	794,135
Total Fund Balance	\$ 4,985,802	\$ (1,229,834)	\$ 4,617,877	\$ 8,373,845

16. Hampden County Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampden County Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The

System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 67 Hunt Street, Suite 106, Agawam, MA 01001.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to April 1, 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 – December 31, 1983	7%
January 1, 1984 – June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2018 was \$3,583,488, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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 System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. 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.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported a liability of \$48,213,446 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the Town's proportion was 13.48 percent.

For the year ended June 30, 2018, the Town recognized pension expense of \$5,686,390. In addition, the Town 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>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,689,455
Differences between expected and actual experience	738,107	694,835
Changes of assumptions	5,526,180	-
Changes in proportion and differences between contributions share of contributions and proportionate share of contributions	<u>576,150</u>	<u>-</u>
Total	<u>\$ 6,840,437</u>	<u>\$ 2,384,290</u>

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

Year ended June 30:	
2019	\$ 1,102,200
2020	1,138,333
2021	918,008
2022	859,050
2023	<u>438,556</u>
Total	<u>\$ 4,456,147</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0 – 4.5%
Inflation rate	3.25%
Post-retirement cost-of-living adjustment	3% of first \$18,000

Mortality rates were based on the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale MP-2017.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2017.

The following actuarial assumptions were changed with this valuation:

- Investment assumption was lowered from 7.75% to 7.5%
- The mortality assumption was updated from RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Employee and Health Annuitant Mortality Table projected generationally with Scale MP-2017.
- Salary increase assumptions were lowered by 0.25%.

These changes in assumptions increased the System's unfunded liability by approximately \$20.2 million.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	17.50%	6.15%
International Developed Markets Equity	15.50%	7.11%
International Emerging Markets Equity	6.00%	9.41%
Core Fixed Income	12.00%	1.68%
High Yield Fixed Income	10.00%	4.13%
Real Estate (Core)	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge Fund, GTAA, Risk Parity	13.00%	3.94%
Private Equity	12.00%	10.28%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
\$59,364,989	\$48,213,446	\$38,802,353

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

17. **Massachusetts Teachers' Retirement System (MTRS)**

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members — two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes 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. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' 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 MTRS 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.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of 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
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

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

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.6%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
\$28,424,300	\$22,885,391	\$18,193,400

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth' proportionate share of the MTRS' collective net pension liability that is associated with the Town was approximately \$68 million based on a proportionate share of 0.295%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$3.6 million as both a revenue and expenditure in general fund, and its portion of the collective pension expense of approximately \$7 million as both a revenue and expense in the governmental activities.

18. Other Post-Employment Benefits (GASB 74 and 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2014, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Town provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	495
Active employees	<u>541</u>
Total	<u><u>1,036</u></u>

B. Investments

The OPEB trust fund assets consist of money markets, equities and fixed income.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 4.85 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.00%, average, including inflation
Investment rate of return	6.91%, net of OPEB plan investment expense

Municipal bond rate	3.45%
Discount rate	3.75%
Healthcare cost trend rate	5.00%
Retirees' share of benefit-related costs	50%

Pre-Retirement Mortality rates were based on RP-2000 Employees Mortality Table projected generationally with Scale BB and a base year 2009 for males and females.

Post-Retirement Mortality rates were based on RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females.

Disability Mortality rates were based on RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2017.

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 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity- Large Cap	21.00%	4.00%
Domestic Equity- Small/Mid Cap	15.25%	6.00%
International Equity - Developed Market	10.50%	4.50%
International Equity - Emerging Market	7.00%	7.00%
Domestic Fixed Income	24.25%	2.00%
International Fixed Income	6.00%	3.00%
Alternatives	15.75%	6.50%
Real Estate	0.00%	6.25%
Cash	0.25%	0.00%
Total	<u>100.00%</u>	

D. Discount Rate

The discount rate used to measure the net OPEB liability was 3.75%. 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.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 6.91% and municipal bond rate of 3.45% (based on index provided by S&P on 20-year municipal bond rate as of June 30, 2018).

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 72,065,717
Plan fiduciary net position	<u>(245,920)</u>
Net OPEB liability	<u>\$ 71,819,797</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.34%

F. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balances at beginning of year	\$ 94,724,504	\$ 185,724	\$ 94,538,780
Changes for the year:			
Service cost	2,504,118	-	2,504,118
Interest	3,599,255	-	3,599,255
Contributions - employer	-	2,570,130	(2,570,130)
Net investment income	-	10,196	(10,196)
Changes in assumptions	(5,285,903)	-	(5,285,903)
Differences between expected and actual experience	(20,956,127)	-	(20,956,127)
Benefit payments	<u>(2,520,130)</u>	<u>(2,520,130)</u>	<u>-</u>
Net Changes	<u>(22,658,787)</u>	<u>60,196</u>	<u>(22,718,983)</u>
Balances at end of year	<u>\$ 72,065,717</u>	<u>\$ 245,920</u>	<u>\$ 71,819,797</u>

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(2.75%)</u>	Discount Rate <u>(3.75%)</u>	1% Increase <u>(4.75%)</u>
\$83,535,121	\$71,819,797	\$62,474,053

H. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease <u>(4.0%)</u>	Healthcare Cost Trend Rates <u>(5.0%)</u>	1% Increase <u>(6.0%)</u>
\$58,447,202	\$71,819,797	\$88,973,836

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$1,239,057. At June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 17,082,537
Change in assumptions	-	4,308,842
Net difference between projected and actual OPEB investment earnings	<u>3,469</u>	<u>-</u>
Total	<u>\$ 3,469</u>	<u>\$ 21,391,379</u>

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

<u>Year ended June 30:</u>	
2019	\$ 4,849,784
2020	4,849,784
2021	4,849,784
2022	4,849,783
2023	<u>1,988,775</u>
Total	\$ <u>21,387,910</u>

19. Subsequent Events

Note Payable

Subsequent to June 30, 2018, the Town incurred the following additional short-term debt:

	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
Bond anticipation note	\$ 1,515,000	2.33%	9/27/2018	9/27/2019

20. Commitments and Contingencies

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

21. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the Town has be restated as follows:

Government-Wide Financial Statements

		<u>Business-Type Activities</u>	
	<u>Governmental Activities</u>	<u>Golf Fund</u>	<u>Sewer Fund</u>
As previously reported	\$ (20,383,201)	\$ 1,012,813	\$ 4,802,232
To record net OPEB liability in accordance with GASB 75	<u>(62,914,588)</u>	<u>(132,888)</u>	<u>(2,305,467)</u>
As restated	<u>\$ (83,297,789)</u>	<u>\$ 879,925</u>	<u>\$ 2,496,765</u>

TOWN OF LUDLOW, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

Hampden County Regional Retirement System

Fiscal Year	Measurement Date	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 Percentage of the Total Pension Liability
June 30, 2018	December 31, 2017	13.48%	\$48,213	\$14,785	326.10%	50.82%
June 30, 2017	December 31, 2016	13.24%	\$48,224	\$14,377	335.44%	46.82%
June 30, 2016	December 31, 2015	12.88%	\$40,239	\$13,407	300.14%	49.22%
June 30, 2015	December 31, 2014	13.47%	\$38,666	\$13,483	286.78%	51.38%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	0.2951%	\$ -	\$67,543	\$67,543	\$20,041	-	54.25%
June 30, 2017	June 30, 2016	0.2834%	\$ -	\$63,355	\$63,355	\$18,639	-	52.73%
June 30, 2016	June 30, 2015	0.2827%	\$ -	\$57,914	\$57,914	\$17,917	-	55.38%
June 30, 2015	June 30, 2014	0.2746%	\$ -	\$43,655	\$43,655	\$16,838	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

Hampden County Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$3,583	\$3,583	-	\$14,785	24.24%
June 30, 2017	December 31, 2016	\$3,300	\$3,300	-	\$14,377	22.96%
June 30, 2016	December 31, 2015	\$2,936	\$2,936	-	\$13,407	21.90%
June 30, 2015	December 31, 2014	\$2,880	\$2,880	-	\$13,483	21.36%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$3,646	\$3,646	-	\$20,041	18.19%
June 30, 2017	June 30, 2016	\$3,187	\$3,187	-	\$18,639	17.10%
June 30, 2016	June 30, 2015	\$2,889	\$2,889	-	\$17,917	16.12%
June 30, 2015	June 30, 2014	\$2,574	\$2,574	-	\$16,838	15.29%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 2,504	\$ 3,407
Interest on unfunded liability - time value of \$	3,599	3,020
Differences between expected and actual experience	(20,956)	-
Changes of assumptions	(5,286)	-
Benefit payments, including refunds of member contributions	<u>(2,520)</u>	<u>(2,684)</u>
Net change in total OPEB liability	(22,659)	3,743
Total OPEB liability - beginning	<u>94,725</u>	<u>90,981</u>
Total OPEB liability - ending (a)	<u><u>\$ 72,066</u></u>	<u><u>\$ 94,725</u></u>
Plan fiduciary net position*		
Contributions - employer	\$ 2,570	\$ 2,734
Net investment income	10	13
Benefit payments, including refunds of member contributions	<u>(2,520)</u>	<u>(2,684)</u>
Net change in plan fiduciary net position	60	63
Plan fiduciary net position - beginning	<u>186</u>	<u>123</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 246</u></u>	<u><u>\$ 186</u></u>
Net OPEB liability (asset) - ending (a-b)	<u><u>\$ 71,820</u></u>	<u><u>\$ 94,539</u></u>

* May reflect certain rounding and immaterial classification differences from page 24.

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,
AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

Schedule of Net OPEB Liability	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 72,066	\$ 94,725
Plan fiduciary net position	<u>(246)</u>	<u>(186)</u>
Net OPEB liability (asset)	<u>\$ 71,820</u>	<u>\$ 94,539</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.34%	 0.20%
 Schedule of Contributions	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 6,387	\$ 8,043
Contributions in relation to the actuarially determined contribution	<u>(2,570)</u>	<u>(2,734)</u>
Contribution deficiency (excess)	<u>\$ 3,817</u>	<u>\$ 5,309</u>
 Schedule of Investment Returns	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	4.85%	8.85%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.