

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF PAXTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2018

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2018



TOWN OF PAXTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Paxton, 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 Paxton, Massachusetts, (the "Town") as of and for the year ended June 30, 2018 (except for the Paxton Municipal Light Department, which is as of December 31, 2017) 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

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 did not audit the financial statements of the Paxton Municipal Light Department, a component unit, which represent approximately 66.7%, 60.3% and 76.7%, respectively, of the assets, net position and revenues of the Town's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this blended presented component unit, is based solely on the report of the other auditors. 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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, as of June 30, 2018, (except for the Paxton Municipal Light Department, which is as of December 31, 2017) and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

We audited the Town's basic financial statements for the year ended June 30, 2017, for which we issued an unmodified opinion dated February 15, 2018. As discussed in Note V to the financial statements, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. In connection with the adoption of this accounting standard, previously reported total net positions in the governmental activities and business-type activities in the Statement of Net Position as well as those in the proprietary funds were restated. Our opinion was not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of the Town's proportionate share of the net pension liability, its contributions to the pension plan, the funding progress and contribution funding of other postemployment benefits and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2019, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli, Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
January 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Paxton, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The Town adopted a new accounting pronouncement related to other postemployment benefits, or OPEB, in fiscal year 2018. As a result, beginning net positions in the Town's governmental activities and business-type activities decreased approximately \$1.5 million. The Paxton Municipal Light Department ("PMLD") will adopt this accounting pronouncement in fiscal year 2019.
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$11.1 million (*total net position*). This represented a decrease of approximately \$308,000 from the prior year. Governmental activities reported a decrease in net position of approximately \$353,000 while business-type activities reported an approximate \$44,000 decrease in fiscal year 2018.
- Included in the Town's governmental activities in fiscal year 2018 were non-cash personnel expenses related to net pension and other postemployment benefits ("OPEB") liabilities of approximately \$1.1 million, which were the primary contributors to the decrease in net position in governmental activities. In its business-type activities, the Town's water fund produced an approximate \$113,000 net increase in net position while the PMLD reported a net decrease in net position of nearly \$69,000.
- The Town reported a deficit of nearly \$7.4 million in its unrestricted net position in its governmental activities at June 30, 2018, primarily as the result of the recording of approximately \$10.5 million in long-term obligations associated with net pension and other postemployment benefits liabilities.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$3.3 million, which was nearly \$145,000 greater than the prior year. Of the ending fund balance, approximately \$1,272,000 is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$1.3 million, which represented approximately 9.93% of total fiscal year 2018 general fund expenditures.
- The Town's total general obligation bond and notes payable debt decreased by over \$969,000 in fiscal year 2018 to approximately \$6.9 million. This decrease was due entirely to the normal, scheduled repayment of long-term general obligations and notes payable.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's 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 the Town's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government'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 pay).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*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 of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include water and electric light enterprise funds.

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable —amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund of in other major funds if negative.

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.

The Town maintains two individual governmental funds – the general fund and other nonmajor governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

Proprietary Funds – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for enterprise funds of the water and electric light activities.

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 statement 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 the 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 concerning the Town’s progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-Wide Financial Analysis

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017(a)	June 30, 2018	June 30, 2017(a)	June 30, 2018	June 30, 2017(a)
Assets:						
Current and other assets	\$ 4,524,898	\$ 4,795,340	\$ 5,767,789	\$ 5,757,865	\$ 10,292,687	\$ 10,553,205
Capital assets, net	16,825,264	17,091,651	5,386,331	5,081,555	22,211,595	22,173,206
Total Assets	<u>21,350,162</u>	<u>21,886,991</u>	<u>11,154,120</u>	<u>10,839,420</u>	<u>32,504,282</u>	<u>32,726,411</u>
Deferred Outflows of Resources	<u>1,671,776</u>	<u>1,053,620</u>	<u>434,832</u>	<u>243,972</u>	<u>2,106,608</u>	<u>1,297,592</u>
Liabilities:						
Long-term liabilities	15,466,562	15,255,319	3,127,257	3,096,228	18,593,819	18,351,547
Other liabilities	1,390,580	1,359,173	589,124	546,865	1,979,704	1,906,038
Total Liabilities	<u>16,857,142</u>	<u>16,614,492</u>	<u>3,716,381</u>	<u>3,643,093</u>	<u>20,573,523</u>	<u>20,257,585</u>
Deferred Inflows of Resources	<u>384,015</u>	<u>192,775</u>	<u>2,536,123</u>	<u>2,148,193</u>	<u>2,920,138</u>	<u>2,340,968</u>
Net Position:						
Net investment in capital assets	11,352,278	11,130,746	4,103,371	3,721,776	15,455,649	14,852,522
Restricted	1,819,135	1,894,886	632,426	1,124,000	2,451,561	3,018,886
Unrestricted	(7,390,632)	(6,892,288)	600,651	446,330	(6,789,981)	(6,445,958)
Total Net Position	<u>\$ 5,780,781</u>	<u>\$ 6,133,344</u>	<u>\$ 5,336,448</u>	<u>\$ 5,292,106</u>	<u>\$ 11,117,229</u>	<u>\$ 11,425,450</u>

(a) As restated for the adoption of GASB Statement No. 75. Refer to Note V.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's total net position decreased over \$308,000, or approximately 3% year-over-year. Expenses in governmental activities included approximately \$1.1 million in non-cash personnel expenses related to net pension and OPEB liabilities in fiscal year 2018, which are the primary contributors to this decrease. The Town reports approximately \$10.5 and \$1.9 million in long-term liabilities associated with net pension and OPEB liabilities in its unrestricted net position within its governmental and business-type activities, respectively, at June 30, 2018. The Town expects to continue reporting deficits in its governmental activities unrestricted net position for the foreseeable future.

The largest portion (approximately \$15.5 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town's total net position (approximately \$2.5 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position*, which currently has a deficit balance of approximately \$6.8 million. Positive net position in business-type activities of nearly \$601,000 is offset by a deficit in the governmental activities of approximately \$7,391,000.

The condensed comparative statements of activities for the past two fiscal years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Program revenues:						
Charges for services	\$ 1,566,502	\$ 1,683,896	\$ 4,532,650	\$ 4,359,750	\$ 6,099,152	\$ 6,043,646
Operating grants and contributions	266,788	229,912	18,467	1,853	285,255	231,765
Capital grants and contributions	302,124	166,895	-	-	302,124	166,895
General revenues:						
Property taxes	10,369,669	9,964,421	-	-	10,369,669	9,964,421
Intergovernmental	538,407	527,568	-	-	538,407	527,568
Other	782,603	747,053	42,205	31,551	824,808	778,604
Total revenues	<u>13,826,093</u>	<u>13,319,745</u>	<u>4,593,322</u>	<u>4,393,154</u>	<u>18,419,415</u>	<u>17,712,899</u>
Expenses:						
General government	1,110,808	1,059,775	-	-	1,110,808	1,059,775
Public safety	4,216,455	3,932,762	-	-	4,216,455	3,932,762
Education	6,532,507	6,343,931	-	-	6,532,507	6,343,931
Public works	1,518,084	1,369,785	-	-	1,518,084	1,369,785
Health and human services	138,722	150,015	-	-	138,722	150,015
Culture and recreation	384,582	381,545	-	-	384,582	381,545
Debt service	277,498	310,002	-	-	277,498	310,002
Water services	-	-	941,961	923,048	941,961	923,048
Electric Light services	-	-	3,607,019	3,737,086	3,607,019	3,737,086
Total expenses	<u>14,178,656</u>	<u>13,547,815</u>	<u>4,548,980</u>	<u>4,660,134</u>	<u>18,727,636</u>	<u>18,207,949</u>
Change in net position	(352,563)	(228,070)	44,342	(266,980)	(308,221)	(495,050)
Net position – beginning of year	6,133,344	7,824,307	5,292,106	5,624,817	11,425,450	13,449,124
Restatement (a)	-	(1,462,893)	-	(65,731)	-	(1,528,624)
Net position – end of year	<u>\$ 5,780,781</u>	<u>\$ 6,133,344</u>	<u>\$ 5,336,448</u>	<u>\$ 5,292,106</u>	<u>\$ 11,117,229</u>	<u>\$ 11,425,450</u>

(a) Restated for the adoption of GASB Statement No. 75. Refer to Note V.

Governmental Activities – Total revenues in fiscal year 2018 in the Town’s governmental activities increased over \$506,000, or 3.8%, from the prior fiscal year. The Town’s largest revenue source is property taxes, which represented approximately 75% of total fiscal year 2018 and 2017 revenues. Charges for services represented approximately 11% and 13% of total fiscal year 2018 and 2017 revenues, respectively. Revenues in all categories were consistent with expectations. The increase in property taxes on a dollar to dollar basis between years was due to the statutorily permissible 2.5% increase in assessment and new growth. No other revenue sources were greater than 10% of total revenues in fiscal year 2018 or 2017.

Education represents the largest expense category for the Town and is provided through the Wachusett Regional School District. In total, education expenses represented approximately 46% and 47% of total fiscal year 2018 and 2017 expenses, respectively. Public safety and public works expenses represented approximately 30% and 11% of total fiscal year 2018 expenses, respectively, and were consistent with the prior fiscal year. No other expense types were greater than 10% of total expenses in fiscal years 2018 or 2017.

Business-Type Activities – User charges for water and electric light services represent virtually all of the revenue reported during fiscal year 2018 and 2017 in the Town’s business-type activities.

Government Funds Financial Analysis

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the Town’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town’s 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 close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$3.3 million, which was nearly \$145,000 higher than the prior fiscal year. Of the ending fund balance, nearly \$1.3 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$1,273,000, while total general fund balance approximated \$1,499,000. 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 fund expenditures. Unassigned fund balance at year end represents over 9.9% of total fiscal year 2018 general fund expenditures, while total fund balance represents approximately 11.6% of that same amount.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds, capital project funds and trust funds.

Proprietary Funds – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$2,116,000 and net position of the electric light fund was approximately \$3,220,000.

Fiduciary Fund – The Town’s fiduciary fund is comprised of the PMLD’s OPEB trust and Town agency funds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant. A reconciliation of these differences is found in the required supplementary information.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to approximately \$22,212,000, net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$38,000. This increase was a result of current year additions exceeding depreciation expense, principally at the PMLD.

Additional information on the Town capital assets can be found in the notes to the financial statements.

Long-term Debt – The Town’s total general obligation bond and notes payable debt decreased by over \$969,000 in fiscal year 2018 to approximately \$6,916,000. In fiscal year 2018, the Town made regular, scheduled repayments on long-term debt of nearly \$969,000.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. Debt service from such arrangements is assessed annually to the Town.

Additional information on the Town’s debt can be found in the notes to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2018 are approximately 95% of the entire property tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2.5% of the previous year’s tax levy. The Town typically taxes at or near its levy limit annually.
- Net state aid in 2019 is expected to be approximately \$633,000 versus \$617,000 in 2018.
- The Town’s median household income is significantly higher than the statewide and national averages and its unemployment rate is lower than these averages.

The above items were considered when the Town accepted its budget for fiscal year 2019 at the May 2018 Town Meeting. The Town set its tax rate for fiscal year 2018 on November 28, 2018.

Requests for Information

This financial report is designed to provide a general overview of the Town’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, Town Hall, 697 Pleasant Street, Paxton, Massachusetts 01612.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,538,566	\$ 3,993,944	\$ 6,532,510
Investments	976,720	1,040,692	2,017,412
Receivables, net:			
Property taxes	321,597	-	321,597
User fees	-	597,292	597,292
Departmental and other	333,076	-	333,076
Intergovernmental	354,939	-	354,939
Prepaid items	-	29,434	29,434
Materials and supplies	-	106,427	106,427
Land	2,673,115	641,719	3,314,834
Capital assets, net of accumulated depreciation	14,152,149	4,744,612	18,896,761
Total Assets	<u>21,350,162</u>	<u>11,154,120</u>	<u>32,504,282</u>
Deferred Outflows of Resources			
Pensions	1,671,776	434,832	2,106,608
Deferred Outflows of Resources	<u>1,671,776</u>	<u>434,832</u>	<u>2,106,608</u>
Liabilities			
Warrants and accounts payable	299,466	409,845	709,311
Accrued expenses	-	38,066	38,066
Customer deposits	-	45,685	45,685
Accrued interest	96,837	11,580	108,417
Other liabilities	9,726	-	9,726
Noncurrent liabilities:			
Due within one year	984,551	83,948	1,068,499
Due in more than one year	15,466,562	3,127,257	18,593,819
Total Liabilities	<u>16,857,142</u>	<u>3,716,381</u>	<u>20,573,523</u>
Deferred Inflows of Resources			
Pensions	384,015	181,711	565,726
Unavailable revenue - rate stabilization reserve	-	2,145,027	2,145,027
Unavailable revenue - other	-	209,385	209,385
Deferred Inflows of Resources	<u>384,015</u>	<u>2,536,123</u>	<u>2,920,138</u>
Net Position			
Net investment in capital assets	11,352,278	4,103,371	15,455,649
Restricted:			
Nonexpendable perpetual funds	385,532	-	385,532
Expendable perpetual funds	212,100	-	212,100
Revolving funds	1,134,852	-	1,134,852
Depreciation	-	632,426	632,426
Other purposes	86,651	-	86,651
Unrestricted	(7,390,632)	600,651	(6,789,981)
Total Net Position	<u>\$ 5,780,781</u>	<u>\$ 5,336,448</u>	<u>\$ 11,117,229</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,110,808	\$ 166,203	\$ 114,642	\$ -	\$ (829,963)		\$ (829,963)
Public safety	4,216,455	991,804	85,614	-	(3,139,037)		(3,139,037)
Education	6,532,507	-	20,184	-	(6,512,323)		(6,512,323)
Public works	1,518,084	295,463	202	281,691	(940,728)		(940,728)
Health and human services	138,722	49,126	31,961	-	(57,635)		(57,635)
Culture and recreation	384,582	63,906	14,185	-	(306,491)		(306,491)
Interest expense	277,498	-	-	20,433	(257,065)		(257,065)
Total governmental activities	14,178,656	1,566,502	266,788	302,124	(12,043,242)		(12,043,242)
Business-Type activities:							
Water	941,961	1,054,038	-	-		\$ 112,077	112,077
Electric Light (a)	3,607,019	3,478,612	18,467	-		(109,940)	(109,940)
Total business-type activities	4,548,980	4,532,650	18,467	-		2,137	2,137
Total Primary Government	\$ 18,727,636	\$ 6,099,152	\$ 285,255	\$ 302,124	\$ (12,043,242)	2,137	(12,041,105)
General Revenues:							
					10,369,669	-	10,369,669
					722,609	-	722,609
					538,407	-	538,407
					43,007	-	43,007
					16,987	42,205	59,192
					11,690,679	42,205	11,732,884

(a) As of and for the year ended December 31, 2017.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,398,238	\$ 1,140,328	\$ 2,538,566
Investments	343,393	633,327	976,720
Receivables, net of allowance for uncollectibles:			
Property taxes	321,597	-	321,597
Departmental and other	91,702	241,374	333,076
Intergovernmental	327,939	27,000	354,939
Total Assets	<u>2,482,869</u>	<u>2,042,029</u>	<u>4,524,898</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,482,869</u>	<u>\$ 2,042,029</u>	<u>\$ 4,524,898</u>
Liabilities			
Warrants and accounts payable	\$ 256,216	\$ 43,250	\$ 299,466
Other liabilities	9,726	-	9,726
Total Liabilities	<u>265,942</u>	<u>43,250</u>	<u>309,192</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	297,812	-	297,812
Unavailable revenue - intergovernmental	327,939	-	327,939
Unavailable revenue - departmental and other	91,702	179,644	271,346
Total Deferred Inflows of Resources	<u>717,453</u>	<u>179,644</u>	<u>897,097</u>
Fund Balances			
Nonspendable	-	385,532	385,532
Restricted	1,416	1,433,603	1,435,019
Assigned	225,534	-	225,534
Unassigned	1,272,524	-	1,272,524
Total Fund Balances	<u>1,499,474</u>	<u>1,819,135</u>	<u>3,318,609</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,482,869</u>	<u>\$ 2,042,029</u>	<u>\$ 4,524,898</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Governmental Fund Balances		\$ 3,318,609
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,825,264
Other assets are not available to pay for current-period expenditures and are therefore deferred inflows of financial resources in the funds.		897,097
Deferred outflows and inflows of resources to be recognized in future personnel expenses are not available resources and, therefore, are not reported in the funds:		
Deferred outflows of resources - pensions	1,671,776	
Deferred inflows of resources - pensions	<u>(384,015)</u>	
Net effect of reporting deferred outflows and inflows of resources		1,287,761
In the statement of net position, interest is accrued on outstanding long-term debt whereas in the governmental funds, interest is not reported until due.		(96,837)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Bonds and notes payable	(5,632,943)	
Capital lease obligations	(167,982)	
Compensated absences	(107,987)	
Net other postemployment benefits liability	(2,900,684)	
Net pension liability	<u>(7,641,517)</u>	
Net effect of reporting long-term liabilities		<u>(16,451,113)</u>
Net Position of Governmental Activities		<u>\$ 5,780,781</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 10,411,403	\$ -	\$ 10,411,403
Intergovernmental	1,011,653	344,671	1,356,324
Motor vehicle and other excises	717,941	-	717,941
Licenses and permits	84,735	-	84,735
Penalties and interest on taxes	43,007	-	43,007
Fines and forfeitures	10,393	-	10,393
Investment income	10,942	6,045	16,987
Departmental and other revenue	417,101	1,136,356	1,553,457
Contributions and donations	-	68,607	68,607
Total Revenues	<u>12,707,175</u>	<u>1,555,679</u>	<u>14,262,854</u>
Expenditures			
Current:			
General government	848,346	32,591	880,937
Public safety	2,159,301	743,012	2,902,313
Education	6,318,294	-	6,318,294
Public works	1,123,628	303,504	1,427,132
Health and human services	74,548	19,216	93,764
Culture and recreation	195,027	134,335	329,362
Pension and fringe benefits	972,040	-	972,040
State and county assessments	28,592	-	28,592
Debt service:			
Principal	887,698	-	887,698
Interest	278,125	-	278,125
Total Expenditures	<u>12,885,599</u>	<u>1,232,658</u>	<u>14,118,257</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(178,424)</u>	<u>323,021</u>	<u>144,597</u>
Other Financing Sources (Uses)			
Transfers in	376,198	-	376,198
Transfers out	-	(376,198)	(376,198)
Total Other Financing Sources (Uses)	<u>376,198</u>	<u>(376,198)</u>	<u>-</u>
Changes in Fund Balances	197,774	(53,177)	144,597
Fund Balances - Beginning of year	<u>1,301,700</u>	<u>1,872,312</u>	<u>3,174,012</u>
Fund Balances - End of year	<u><u>\$ 1,499,474</u></u>	<u><u>\$ 1,819,135</u></u>	<u><u>\$ 3,318,609</u></u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances \$ 144,597

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. The net amounts are reflects as reconciling items:

Capital outlays	555,629	
Depreciation expense	(822,016)	
Net effect of reporting capital assets		(266,387)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. The net amounts are reflected here as reconciling items:

Issuance of capital lease obligation	(90,981)	
Repayments of debt and capital lease obligations	952,172	
Net effect of reporting long-term debt		861,191

Revenues in the statement of activities that do not provide current financial resources are unavailable in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue.

(436,761)

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:

Accrued interest	7,976	
Compensated absences	(7,772)	
Net other postemployment benefits liability	60,422	
Net pension liability	(715,829)	
Net effect of reporting long-term liabilities		(655,203)

Change in Net Position of Governmental Activities \$ (352,563)

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 513,016	\$ 3,480,928	\$ 3,993,944
Investments	-	1,040,692	1,040,692
User charges receivable, net	168,290	429,002	597,292
Prepaid items	-	29,434	29,434
Materials and supplies	-	106,427	106,427
Total current assets	<u>681,306</u>	<u>5,086,483</u>	<u>5,767,789</u>
Noncurrent assets:			
Land	641,400	319	641,719
Capital assets, net of accumulated depreciation	<u>2,394,578</u>	<u>2,350,034</u>	<u>4,744,612</u>
Total noncurrent assets	<u>3,035,978</u>	<u>2,350,353</u>	<u>5,386,331</u>
Total Assets	<u>3,717,284</u>	<u>7,436,836</u>	<u>11,154,120</u>
Deferred Outflows of Resources			
Pensions	<u>10,554</u>	<u>424,278</u>	<u>434,832</u>
Total Deferred Outflows of Resources	<u>10,554</u>	<u>424,278</u>	<u>434,832</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,727,838</u>	<u>\$ 7,861,114</u>	<u>\$ 11,588,952</u>
Liabilities			
Current liabilities:			
Warrants and accounts payable	\$ 132,740	\$ 277,105	\$ 409,845
Accrued expenses	-	38,066	38,066
Customer deposits	-	45,685	45,685
Accrued interest	11,580	-	11,580
Other liabilities	-	-	-
Compensated absences	1,095	-	1,095
Bonds and notes payable	<u>82,853</u>	<u>-</u>	<u>82,853</u>
Total current liabilities	<u>228,268</u>	<u>360,856</u>	<u>589,124</u>
Noncurrent liabilities:			
Compensated absences	2,035	-	2,035
Bonds and notes payable	1,200,107	-	1,200,107
Net other postemployment benefits liability	130,334	-	130,334
Net other postemployment benefits obligation	-	24,219	24,219
Net pension liability	<u>48,242</u>	<u>1,722,320</u>	<u>1,770,562</u>
Total noncurrent liabilities	<u>1,380,718</u>	<u>1,746,539</u>	<u>3,127,257</u>
Total Liabilities	<u>1,608,986</u>	<u>2,107,395</u>	<u>3,716,381</u>
Deferred Inflows of Resources			
Pensions	2,424	179,287	181,711
Purchased power adjustment	-	118,833	118,833
Contribution in aid of construction	-	90,552	90,552
Rate stabilization reserve	<u>-</u>	<u>2,145,027</u>	<u>2,145,027</u>
Total Deferred Inflows of Resources	<u>2,424</u>	<u>2,533,699</u>	<u>2,536,123</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,611,410</u>	<u>4,641,094</u>	<u>6,252,504</u>
Net Position			
Net investment in capital assets	1,753,018	2,350,353	4,103,371
Restricted for depreciation	-	632,426	632,426
Unrestricted	<u>363,410</u>	<u>237,241</u>	<u>600,651</u>
Total Net Position	<u>2,116,428</u>	<u>3,220,020</u>	<u>5,336,448</u>
Total Liabilities, Deferred Outflows of Resources and Net Position	<u>\$ 3,727,838</u>	<u>\$ 7,861,114</u>	<u>\$ 11,588,952</u>

(a) As of December 31, 2017.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Operating Revenues			
Charges for services	\$ 1,054,038	\$ 3,280,541	\$ 4,334,579
Other	-	198,071	198,071
Total Operating Revenues	<u>1,054,038</u>	<u>3,478,612</u>	<u>4,532,650</u>
Operating Expenses			
Water purchases	459,173	-	459,173
Personnel and other operating costs	355,153	3,427,544	3,782,697
Depreciation	90,154	179,207	269,361
Total Operating Expenses	<u>904,480</u>	<u>3,606,751</u>	<u>4,511,231</u>
Total Operating Income (Loss)	<u>149,558</u>	<u>(128,139)</u>	<u>21,419</u>
Nonoperating Revenues (Expenses)			
Investment income	1,022	41,183	42,205
Interest expense	(37,481)	(268)	(37,749)
Other	-	18,467	18,467
Total Nonoperating Revenues (Expenses)	<u>(36,459)</u>	<u>59,382</u>	<u>22,923</u>
Change in Net Position	<u>113,099</u>	<u>(68,757)</u>	<u>44,342</u>
Net Position - Beginning of Year (b)	<u>2,003,329</u>	<u>3,288,777</u>	<u>5,292,106</u>
Net Position - End of Year	<u>\$ 2,116,428</u>	<u>\$ 3,220,020</u>	<u>\$ 5,336,448</u>

(a) As of and for the year ended December 31, 2017.

(b) The beginning balance in water was restated for the adoption of GASB Statement No. 75. Refer to Note V.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 1,039,328	\$ 3,303,426	\$ 4,342,754
Receipts from other operating revenues	-	198,071	198,071
Payments to employees	(170,954)	(1,123,879)	(1,294,833)
Payments to vendors	(647,336)	(2,065,419)	(2,712,755)
Net Cash Provided by Operating Activities	<u>221,038</u>	<u>312,199</u>	<u>533,237</u>
Cash Flows from Noncapital Financing Activities			
Interest expense	-	(268)	(268)
Proceeds from grant awards, net	-	9,477	9,477
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>9,209</u>	<u>9,209</u>
Cash Flows (Used in) from Capital and Related Financing Activities			
Contribution in aid of construction	-	17,286	17,286
Acquisition and construction of capital assets	-	(567,560)	(567,560)
Principal payments on bonds and notes	(81,622)	-	(81,622)
Interest payments on bonds and notes	(38,048)	-	(38,048)
Net Cash Used in Capital and Related Financing Activities	<u>(119,670)</u>	<u>(550,274)</u>	<u>(669,944)</u>
Cash Flows from Investing Activities			
Investment income	1,022	18,845	19,867
Investment of operating cash, net	-	208	208
Net Cash Provided by Investing Activities	<u>1,022</u>	<u>19,053</u>	<u>20,075</u>
Change in Cash and Cash Equivalents	102,390	(209,813)	(107,423)
Cash and Cash Equivalents			
Beginning of the year	410,626	3,690,741	4,101,367
End of the year	<u>\$ 513,016</u>	<u>\$ 3,480,928</u>	<u>\$ 3,993,944</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 149,558	\$ (128,139)	\$ 21,419
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	90,154	179,207	269,361
Surplus power adjustment	-	(227,897)	(227,897)
Rate stabilization	-	298,245	298,245
Changes in assets and liabilities:			
Receivables	(14,710)	(113,166)	(127,876)
Prepaid expenses and materials	-	26,659	26,659
Purchased power adjustments	-	7,328	7,328
Accounts payable and accrued expenses	(3,964)	269,962	265,998
Net Cash Provided by Operating Activities	<u>\$ 221,038</u>	<u>\$ 312,199</u>	<u>\$ 533,237</u>

(a) As of and for the year ended December 31, 2017.

See accompanying notes to basic financial statements.

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

	<u>OPEB Trust Electric Light (a)</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 34,164	\$ 69,299
Mutual funds	<u>640,965</u>	<u>-</u>
Total Assets	<u>675,129</u>	<u>69,299</u>
Liabilities		
Escrows and deposits held	<u>-</u>	<u>69,299</u>
Total Liabilities	<u>-</u>	<u>69,299</u>
Net Position		
Restricted for other postemployment benefits	<u>675,129</u>	<u>-</u>
Total Net Position	<u><u>\$ 675,129</u></u>	<u><u>\$ -</u></u>

(a) As of December 31, 2017.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

	<u>OPEB Trust Electric Light (a)</u>
Additions	
Employer contributions	\$ 263,657
Investment income	<u>62,756</u>
Total Additions	<u>326,413</u>
Deductions:	
Health benefits paid	<u>29,760</u>
Total Deductions	<u>29,760</u>
Change in Net Position	296,653
Net Position - Beginning of year	<u>378,476</u>
Net Position - End of year	<u><u>\$ 675,129</u></u>

(a) As of and for the year ended December 31, 2017.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the Town of Paxton (the “Town”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town is located in Worcester County, approximately forty-five miles west of the City of Boston and borders the City of Worcester. The Town was incorporated in 1765. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve staggered three-year terms.

The Town provides governmental services for the territory within its boundaries, including public safety, education through a regional school district, public works, health and human services, culture and recreation, general governmental services, water and electricity. The water and electricity services are funded through user charges and treated as business enterprises.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. The component unit discussed below is included in the Town's reporting entity because of the significance of its operations or financial relationships with the Town.

Paxton Municipal Light Department – Paxton Municipal Light Department, (“PMLD” or “Electric Light”), which provides electrical services to the Town’s inhabitants, is required to be included as a component unit of the Town. PMLD accounts for its operations on a calendar year basis. The net position and results of PMLD’s operations as of and for the year ended December 31, 2017 have been included in the Town’s proprietary funds financial statements. The PMLD issued stand-alone audited financial statements from another auditor, which can be obtained from the PMLD. PMLD is located at 578 Pleasant Street, Paxton Massachusetts 01612.

The Town is a member community of the Wachusett Regional School District, which provides educational services to five area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2018, the Town’s assessment was \$5,998,792. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District’s administrative office located at Jefferson School, 1745 Main Street, Jefferson, MA 01522.

In addition, the Town is a member community of the Bay Path Regional Vocational Technical School, which belongs to the Southern Worcester County Regional Vocational School District. This joint venture assesses each of the ten member communities its share of the operational and debt service costs based on student population and other factors. In fiscal year 2018, the Town's assessment was \$227,847. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 57 Old Muggett Hill Road, Charlton, MA 01507.

B. Government-Wide and Fund 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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*. For the most part, the effect of Interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. 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. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth of Massachusetts (the "Commonwealth").

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major Governmental Funds:

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.

Nonmajor Governmental Funds – consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

The Permanent Funds are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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 the 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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary fund:

Water Enterprise Fund – is used to account for the operation of the Town's water activities.

PMLD – is used to account for the operation of the Town's electrical power distribution activities.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The Town reports the following fiduciary funds:

PMLD OPEB Trust Funds – is used to account for trust arrangement established by the PMLD for other postemployment benefits.

Agency Fund – is used to account for assets held in a purely custodial capacity. The Town's agency funds consist primarily of student activities, off-duty work details and escrow and other deposits.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity

Deposits and Investments – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town and its component unit are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes up to the statutory interest percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and user fees are secured through a lien process within sixty days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old, if material.

Inventories and Prepaid Items – In the case of the Town, inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. With respect to the PMLD, materials and supplies are inventories of parts and accessories purchased for use in PMLD's operations. Materials and supplies inventory are stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, vehicles, software and infrastructure (e.g. roads, sidewalks, water mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. 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.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated by the Town and the PMLD on a straight-line-basis.

The estimated useful lives of capital assets being depreciated are as follows:

Land improvements	40 years
Buildings and improvements	10 – 50 years
Vehicles, machinery and equipment	5 – 25 years
Infrastructure	15 – 50 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are 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.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts, in addition to issuance costs (if material), are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Risk Financing – The Town insures for workers' compensation, health, unemployment benefits, casualty, theft and other losses. Uninsured losses are recorded as expenditures when incurred.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows of resources in its government-wide financial statements relative to pension-related transactions as well as certain Electric Light transactions. The Town does not report deferred outflows of resources in its governmental funds financial statements.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflows of resources in its government-wide financial statements relative to certain Electric Light transactions and pension-related transactions. The deferred pensions will be recognized as reductions to pension expense within the next five years. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial statements. These amounts will be recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Perpetual funds represent both the endowment portion of donor restricted trusts that support governmental programs and the spendable, yet restricted, amount of various trust funds that support governmental programs (i.e., expendable funds).

Revolving funds represent assets that have been accumulated from specific services not supported by the Town’s general appropriation.

Depreciation fund is used by the PMLD to account for cash reserved for plant improvements, decommissioning, contractual commitments and deferred costs related to such commitments that the PLMD board determines are above market value.

Other purposes represent assets that are restricted by donors for specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to formal action of the Town’s highest level of decision making authority, which is the Town Meeting action, and can be modified or rescinded on through these actions.

Assigned represents amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a *negative* unassigned fund balance amount.

The following table reflects the Town's fund equity categorizations:

	General	Nonmajor Governmental Funds	Total
Nonspendable:			
Nonexpendable trust funds	\$ -	\$ 385,532	\$ 385,532
Restricted:			
General government	-	241,972	241,972
Public safety	-	501,843	501,843
Education	-	15,995	15,995
Public works	-	147	147
Health and human services	-	443,920	443,920
Culture and recreation	-	229,726	229,726
Debt service	1,416	-	1,416
Assigned:			
Encumbrances	1,440	-	1,440
Subsequent year expenditures	224,094	-	224,094
Unassigned:			
Stabilization - general	396,768	-	396,768
Stabilization - capital	33,576	-	33,576
Unrestricted	842,180	-	842,180
	<u>\$ 1,499,474</u>	<u>\$ 1,819,135</u>	<u>\$ 3,318,609</u>

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

Stabilization Funds – The Town maintains two types of stabilization funds – general and capital under Section 5B of Chapter 40 of Massachusetts General Laws, or MGL. The use of stabilization funds requires the vote of two-thirds of Town Meeting. The fund balances in the Town's two stabilization funds are reported as unassigned in the general fund at June 30, 2018.

Encumbrances – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Controller as assigned, and (2) classify encumbrances that result from an action of the Town Council as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$1,440 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

E. Excess of Expenditures Over Appropriations and Deficits

During the year ended June 30, 2018, there were no material expenditures exceeding appropriations. Additionally, there were no material deficits in the Town's nonmajor governmental funds.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as *cash and cash equivalents*. The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

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

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

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

Deposits and Investments of the Town (excludes the PMLD)

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2018:

Investments by Fair Value Level	June 30, 2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury notes	\$ 127,676	\$ 127,676	\$ -	\$ -
U.S. Governmental agency obligations	415,806	-	415,806	-
Corporate bonds	184,729	-	184,729	-
Total debt securities	728,211	127,676	600,535	-
Mutual funds	212,509	212,509	-	-
Total investments by fair value level	\$ 940,720	\$ 340,185	\$ 600,535	\$ -

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2018, all of the Town's bank deposits were fully insured by the Federal Depository Insurance Corporation ("FDIC"), the Depositors Insurance Fund ("DIF") or other forms of collateralization and was therefore unexposed to custodial credit risk.

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

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the market value of an investment. The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Town mitigates interest rate risk by managing the duration of its investments.

Concentration of Credit Risk - The Town's investment policy prohibits any investment (excluding U.S. Treasuries or agencies and State pools) to exceed 10% of the Town's investments. The Town's investments in U.S Treasury notes and other government obligations of federal agencies represented approximately 58% of the Town's total investments at June 30, 2018. There were no other individual investments representing more than 5% of the Town's total investments.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investment policy seeks to mitigate this risk using a capital preservation strategy. In practice, the Town seeks to purchase investment grade securities with a high concentration of securities rated A or above as determined by credit rating agencies.

Investment Maturities – At June 30, 2018, the Town had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
U.S. government obligations	\$ 579,482	\$ 113,665	\$ 465,817	\$ -	\$ -
Corporate fixed income securities	184,729	20,182	164,548	-	-
Total investments with maturities	764,211	\$ 133,847	\$ 630,365	\$ -	\$ -
Mutual funds	212,509				
Total Town investments	\$ 976,720				

Of the Town’s investments in corporate fixed income, \$42,410 were rated by Moody’s Investors Service (“Moody’s”) as A1, \$38,796 were rated A2, \$33,863 were rated A3, \$49,479 were rated Baa1, and \$20,181 were rated Baa2. In addition, all of the Town’s government securities were rated Aaa by Moody’s. Ratings are not available for the Town’s investments in mutual funds.

Deposits and Investments of the PMLD (as of December 31, 2017)

The following table presents the PMLD’s investments carried at fair value on a recurring basis as of December 31, 2017:

Investments by Fair Value Level	December 31, 2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 476,026	\$ 476,026	\$ -	\$ -
Corporate bonds	564,666	-	564,666	-
Total debt securities	1,040,692	476,026	564,666	-
Mutual funds	640,965	-	640,965	-
Total investments by fair value level	\$ 1,681,657	\$ 476,026	\$ 1,205,631	\$ -

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The PMLD may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The PMLD’s policy for custodial credit risk of deposits is to rely on FDIC and DIF insurance coverage for deposits held at each financial institution. All of the PMLD’s funds are deposited with the Town; accordingly, the amount of depository insurance coverage for the PMLD is included with the Town’s disclosure.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the PMLD will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The PMLD’s policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the PMLD. At December 31, 2017, the PMLD was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Investments – This is the risk that changes in interest rates will adversely affect the market value of an investment. Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The PMLD does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Investments –The PMLD’s investments in U.S Treasury notes and other government obligations of federal agencies represented approximately 51% of the PMLD’s total investments at December 31, 2017. No other individual investment represented more than 5% of the PMLD’s total investments.

Investment Maturities – At December 31, 2017, the PMLD had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
U.S. government obligations	\$ 476,026	\$ 42,706	\$ 310,518	\$ 122,802	\$ -
Corporate fixed income securities	564,666	-	3,215,098	249,568	-
Total investments with maturities	<u>\$ 1,040,692</u>	<u>\$ 42,706</u>	<u>\$ 3,525,616</u>	<u>\$ 372,370</u>	<u>\$ -</u>
Mutual funds	640,965				
Total PMLD investments	<u>\$ 1,681,657</u>				

All of the PMLD’s investments in U.S. government obligations were rated AA+ by Standard and Poor’s Financial Services LLC (“S&P”). Of the PMLD’s investments in corporate fixed income securities, \$48,110 were rated AA+, \$115,618 were rated AA, \$41,830 were rated AA-, \$61,262 were rated A+, \$137,156 were rated A, and \$160,690 were rated A- by S&P.

B. Receivables

Receivables as of June 30, 2018 for the Town's major governmental funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate taxes	\$ 83,564	\$ -	\$ 83,564
Personal property taxes	884	-	884
Tax liens and possessions	237,149	-	237,149
Motor vehicle and other excise taxes	103,761	(32,183)	71,578
Departmental and other	436,256	(225,000)	211,256
Title V loan receivables	50,242	-	50,242
Intergovernmental	354,939	-	354,939
Total	<u>\$ 1,266,795</u>	<u>\$ (257,183)</u>	<u>\$ 1,009,612</u>

Receivables reported in the Town's proprietary funds were entirely related to user charges.

Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following table identifies the components of unavailable revenues in the governmental funds:

	General Fund	Nonmajor Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 60,663	\$ -	\$ 60,663
Tax liens and possessions	237,149	-	237,149
Motor vehicle and other excise taxes	71,578	-	71,578
Departmental and other	20,124	179,644	199,768
Intergovernmental and other	327,939	-	327,939
Total	<u>\$ 717,453</u>	<u>\$ 179,644</u>	<u>\$ 897,097</u>

School Building Assistance Reimbursement – The Town expects to receive \$338,045 from the Massachusetts School Building Authority in fiscal year 2019 as its final payment related to nearly \$6.8 million school construction project that commenced in fiscal year 1999. The Town reports \$327,939 as an intergovernmental receivable in the general fund related to this long-term arrangement, which represents the net present value of this long-term receivable.

C. Interfund Receivables, Payables and Transfers

During fiscal year 2018, the Town transferred \$328,500 from its ambulance receipts reserved for appropriation fund, and \$7,698 from its Title V revolving account and \$40,000 from its capital projects fund to its general fund.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 2,673,115	\$ -	\$ -	\$ 2,673,115
Capital assets being depreciated:				
Buildings and improvements	22,014,187	103,025	-	22,117,212
Infrastructure	2,617,876	353,583	-	2,971,459
Machinery and equipment (a)	4,069,637	52,990	(30,597)	4,092,030
Vehicles (a)	853,591	141,921	(65,293)	930,219
Total capital assets being depreciated	29,555,291	651,519	(95,890)	30,110,920
Less accumulated depreciation for:				
Buildings and improvements	(10,628,332)	(467,146)	-	(11,095,478)
Infrastructure	(1,117,239)	(182,305)	-	(1,299,544)
Machinery and equipment	(2,688,267)	(203,392)	30,597	(2,861,062)
Vehicles	(702,917)	(65,063)	65,293	(702,687)
Total accumulated depreciation	(15,136,755)	(917,906)	95,890	(15,958,771)
Total capital assets being depreciated, net	14,418,536	(266,387)	-	14,152,149
Total governmental activities capital assets, net	\$ 17,091,651	\$ (266,387)	\$ -	\$ 16,825,264

- (a) The Town reclassified assets with acquisition costs of \$2,950,830 and accumulated depreciation of \$1,838,252 from vehicles to machinery and equipment at the beginning of the year.

Depreciation expense was charged to functions/programs as follows:

General government	\$ 14,507
Public safety	367,523
Education	240,706
Public works	270,903
Health and human services	1,250
Culture and recreation	23,017
	<u>\$ 917,906</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 641,719	\$ -	\$ -	\$ 641,719
Construction in-progress	107,302	132,917	(240,219)	-
Total capital assets not being depreciated	749,021	132,917	(240,219)	641,719
Capital assets being depreciated:				
Electric plant	6,053,931	683,852	(296,620)	6,441,163
Buildings and improvements	689,100	-	-	689,100
Infrastructure	4,326,442	-	-	4,326,442
Machinery and equipment	38,759	-	-	38,759
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	11,134,652	683,852	(296,620)	11,521,884
Less accumulated depreciation for:				
Electric plant	(4,206,129)	(181,620)	296,620	(4,091,129)
Buildings and improvements	(379,033)	(14,300)	-	(393,333)
Infrastructure	(2,164,179)	(75,642)	-	(2,239,821)
Machinery and equipment	(26,357)	(212)	-	(26,569)
Vehicles	(26,420)	-	-	(26,420)
Total accumulated depreciation	(6,802,118)	(271,774)	296,620	(6,777,272)
Total capital assets being depreciated, net	4,332,534	412,078	-	4,744,612
Total business-type activities capital assets, net	\$ 5,081,555	\$ 544,995	\$ (240,219)	\$ 5,386,331

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 641,400	\$ -	\$ -	\$ 641,400
Capital assets being depreciated:				
Buildings and improvements	689,100	-	-	689,100
Infrastructure	4,326,442	-	-	4,326,442
Machinery and equipment	38,759	-	-	38,759
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	5,080,721	-	-	5,080,721
Less accumulated depreciation for:				
Buildings and improvements	(379,033)	(14,300)	-	(393,333)
Infrastructure	(2,164,179)	(75,642)	-	(2,239,821)
Machinery and equipment	(26,357)	(212)	-	(26,569)
Vehicles	(26,420)	-	-	(26,420)
Total accumulated depreciation	(2,595,989)	(90,154)	-	(2,686,143)
Total capital assets being depreciated, net	2,484,732	(90,154)	-	2,394,578
Total Water capital assets, net	\$ 3,126,132	\$ (90,154)	\$ -	\$ 3,035,978

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities: PMLD</u></i>				
Capital assets not being depreciated:				
Land	\$ 319	\$ -	\$ -	\$ 319
Construction in-progress	107,302	132,917	(240,219)	-
Total capital assets not being depreciated	107,621	132,917	(240,219)	319
Capital assets being depreciated:				
Distribution plant	4,855,289	90,554	(27,936)	4,917,907
General plant	1,198,642	593,298	(268,684)	1,523,256
Total capital assets being depreciated	6,053,931	683,852	(296,620)	6,441,163
Less accumulated depreciation for:				
Distribution plant	(3,567,525)	(135,626)	27,936	(3,675,215)
General plant	(638,604)	(45,994)	268,684	(415,914)
Total accumulated depreciation	(4,206,129)	(181,620)	296,620	(4,091,129)
Total capital assets being depreciated, net	1,847,802	502,232	-	2,350,034
Total PMLD capital assets, net	\$ 1,955,423	\$ 635,149	\$ (240,219)	\$ 2,350,353

E. Purchased Power Working Capital

The PMLD is a member and participant of the Massachusetts Municipal Wholesale Electric Company ("MMWEC"). The purchased power working capital is an amount held by MMWEC as an escrow. The purchased power working capital fund is replenished as needed from the PMLD's monthly invoice payments. The income earned from the purchased power working capital fund applicable to the PMLD's deposit is applied as a credit to MMWEC's power sales billings. The balance in the purchased power working capital funds as of December 31, 2017 is \$440,314 and is reported in the PMLD's current assets.

F. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes ("BANS") or grant anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

The Town did not issue any temporary notes in fiscal year 2018.

G. Long-term Obligations

The Town issues general obligation bonds and notes and capital leases to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

The following reflects the current year activity (the PMLD's activity is for the year ended December 31, 2017) in the long-term liability accounts:

Description of Issue	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 6,520,641	\$ -	\$ (887,698)	\$ 5,632,943	\$ 882,697
Capital lease obligations	141,475	90,981	(64,474)	167,982	64,059
Compensated absences	100,215	7,772	-	107,987	37,795
Net OPEB liability (a)	2,961,106	12,162	(72,584)	2,900,684	-
Net pension liability	6,498,772	3,054,386	(1,911,641)	7,641,517	-
Total Governmental Activities	<u>\$ 16,222,209</u>	<u>\$ 3,165,301</u>	<u>\$ (2,936,397)</u>	<u>\$ 16,451,113</u>	<u>\$ 984,551</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds and notes payable	\$ 1,364,582	\$ -	\$ (81,622)	\$ 1,282,960	\$ 82,853
Compensated absences	2,788	342	-	3,130	1,095
Net OPEB liability (a)	133,049	546	(3,261)	130,334	-
Net pension liability	82,998	20,120	(54,876)	48,242	-
Total Water	<u>\$ 1,583,417</u>	<u>\$ 21,008</u>	<u>\$ (139,759)</u>	<u>\$ 1,464,666</u>	<u>\$ 83,948</u>
<i>Business-Type Activities - PMLD:</i>					
Net OPEB obligation	\$ 167,496	\$ 108,358	\$ (251,635)	\$ 24,219	\$ -
Net pension liability	1,427,913	767,865	(473,458)	1,722,320	-
Total PMLD	<u>\$ 1,595,409</u>	<u>\$ 876,223</u>	<u>\$ (725,093)</u>	<u>\$ 1,746,539</u>	<u>\$ -</u>
Total Business-Type Activities	<u>\$ 3,178,826</u>	<u>\$ 897,231</u>	<u>\$ (864,852)</u>	<u>\$ 3,211,205</u>	<u>\$ 83,948</u>

(a) Beginning balance was restated for the adoption of GASB Statement No. 75. Refer to Note V.

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the water and PMLD enterprise funds.

General obligation bonds and notes payable outstanding at June 30, 2018 were as follows:

Description of Issue	Interest Rates	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.50 - 5.00%	\$ 6,490,000	\$ -	\$ (880,000)	\$ 5,610,000
MCWT notes payable	4.50 - 5.63%	30,641	-	(7,698)	22,943
Total Governmental Activities		<u>\$ 6,520,641</u>	<u>\$ -</u>	<u>\$ (887,698)</u>	<u>\$ 5,632,943</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds	3.97 - 4.65%	\$ 50,000	\$ -	\$ (25,000)	\$ 25,000
MCWT notes payable	2.00%	1,314,582	-	(56,622)	1,257,960
Total Business-Type - Water		<u>\$ 1,364,582</u>	<u>\$ -</u>	<u>\$ (81,622)</u>	<u>\$ 1,282,960</u>

Payments on outstanding general obligation bonds and notes payable due in future years consist of the following:

Governmental Activities			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 882,697	\$ 239,678	\$ 1,122,375
2020	522,697	199,871	722,568
2021	522,549	179,883	702,432
2022	485,000	160,153	645,153
2023	410,000	141,601	551,601
2024-2028	1,760,000	463,872	2,223,872
2029-2033	250,000	207,812	457,812
2034-2038	250,000	153,125	403,125
2039-2043	250,000	98,438	348,438
2044-2048	250,000	43,750	293,750
2049	50,000	2,187	52,187
Total	<u>\$ 5,632,943</u>	<u>\$ 1,890,370</u>	<u>\$ 7,523,313</u>

Business-Type Activities			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 82,853	\$ 26,321	\$ 109,174
2020	59,110	24,002	83,112
2021	60,395	22,820	83,215
2022	61,708	21,612	83,320
2023	63,049	20,378	83,427
2024-2028	336,403	82,418	418,821
2029-2033	374,583	47,283	421,866
2034-2036	244,859	9,865	254,724
Total	<u>\$ 1,282,960</u>	<u>\$ 254,699</u>	<u>\$ 1,537,659</u>

At June 30, 2018, no amounts were authorized and unissued for additional borrowings.

State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of five percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2018 was approximately \$25.4 million based on an equalized valuation of approximately \$508 million.

The Town is party to several non-cancellable leases for the purchase of an ambulance and a front-end loader. For financial reporting purposes, these leases are accounted for as capital leases. The future minimum lease payments on these capital lease obligations and the net present value of these minimum lease payments as of June 30, 2018 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2019	\$ 71,823
2020	48,552
2021	36,553
2022	9,524
2023	9,524
2024	<u>9,524</u>
Total minimum lease payments	185,500
Less amount representing interest	<u>(17,517)</u>
Present value of minimum lease payments	<u>\$ 167,983</u>

Assets acquired through capital leases are as follows:

<u>Asset Description</u>	<u>Amount</u>
Front end loader	\$ 230,000
Ambulance	146,900
Police cruisers (2)	57,346
DPW truck	<u>56,980</u>
Total cost	491,226
Less accumulated depreciation	<u>(310,874)</u>
Net carrying value	<u>\$ 180,352</u>

III. Other Information

A. Retirement Systems

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of MGL. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2017 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-seven employers as of December 31, 2017 was as follows:

Active members	7,601
Inactive members entitled to, but not receiving benefits	1,653
Inactive members (or beneficiaries) currently receiving benefits	<u>3,723</u>
	<u>12,977</u>

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

Massachusetts contributory retirement system benefits are uniform for all municipal retirement systems. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

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

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in fiscal year 2018.

Contributions Requirements – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of MGL, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town (including the PMLD) contributed \$598,706 to the Retirement System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 20% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$9,412,079 for its proportionate share of the net pension liability. The net pension liability reported by the Retirement System at December 31, 2017 (used for fiscal year-end June 30, 2018) is \$9,648,380. The difference between these two figures is attributable to the difference in fiscal year ends between the Town and the PMLD, which results in a one-year lag.

The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. There were no material changes to the actuarial assumptions made in this update (see below).

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town and PMLD's proportionate share were approximately 1.18% and 0.99% at December 31, 2017 and December 31, 2016, respectively.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2017, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal

commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$1,420,710 in pension expense in the statement of activities in fiscal year 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,200	\$ -
Changes of assumptions	936,532	-
Net difference between projected and actual earnings on pension plan investments	59,765	239,769
Changes in proportion and differences between Town contributions and proportionate share of contributions	923,411	325,957
Contributions subsequent to the measurement date	121,700	-
	<u>\$ 2,106,608</u>	<u>\$ 565,726</u>

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

Year ended June 30,

2019	\$ 560,846
2020	558,456
2021	320,620
2022	100,960
	<u>\$ 1,540,882</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Inflation:	3.0% per year
Amortization method:	Payment increases 4.0% per year, except for early retirement incentive ("ERI") programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing market value
Salary increases:	Group 1: 4.20-6.00%, based on service

Investment rate of return:	Group 4: 4.75-7.00%, based on service 7.75%, net of pension plan investment expense, including inflation
Mortality rates:	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled life mortality:	For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equities	40%	4.91%
Fixed income	22%	2.04%
Private equity	11%	6.50%
Real estate	10%	3.70%
Timber/natural resources	4%	3.25%
Hedge funds	13%	3.40%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town's proportionate share of the net pension liability	\$ 11,471,300	\$ 9,412,079	\$ 7,673,054

B. Other Postemployment Benefits

In addition to the pension benefits previously described, the Town and PMLD provide health and life insurance benefits (other postemployment benefits, or OPEB) to current and future retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B Section 20 (hereinafter referred to as the “OPEB Plans”).

The Town and PMLD operate OPEB Plans, while all benefits are provided through the Town’s insurance program. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. The Town has not funded an OPEB Plan. The PMLD has funded and maintains an OPEB Plan, however it does not issue a stand-alone financial report; the PMLD OPEB Plan is presented as a fiduciary fund in the Town’s financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, is the authoritative guidance for OPEB plans. The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current fiscal year. The PMLD was not required to adopt GASB Statement No. 75 for its fiscal year ended December 31, 2017; the PMLD continues to account for its OPEB obligation under GASB Statement No. 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and will adopt GASB Statement No. 75 for its fiscal year ended December 31, 2018.

GASB Statement No. 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB Statement No. 75 address disclosures related to the net OPEB liability required to be recorded by the government in its applicable financial statements. Many disclosures required under these two accounting standards are identical, especially if the same measurement date is used for both. However, when different measurement dates are used, differences in assumptions and calculations will result.

This footnote disclosure separately presents the required disclosures into three sections – Town accounting disclosures under GASB Statement No. 75, PMLD accounting disclosures under GASB Statement No. 45 and OPEB Plans disclosures under GASB Statement No. 74.

Town Accounting Disclosures (GASB Statement No. 75)

The Town's net OPEB liability was determined using an alternative measurement method, which is an approach that includes the same broad measurement steps as an actuarial valuation (i.e., projecting benefit payments, discounting projected benefit payments to a present value and attributing the present value of projected benefit payments to periods using an actuarial cost method). The Town is permitted to use an alternative measurement method as there are fewer than one hundred employees (active and inactive) eligible to receive OPEB benefits.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2018:

Inactive employees or beneficiaries receiving benefits	25
Active employees	<u>51</u>
	<u>76</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established by and may be amended by the Town. Retirees currently contribute 60% of the costs for medical and dental insurance and the Town pays the remainder. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2018, the Town contributed \$75,845 on a pay-as-you-go basis for OPEB.

Net OPEB Liability – The Town's net OPEB liability was measured as of June 30, 2018 using an alternative measurement method. The components of the net OPEB liability reported by the Town at June 30, 2018 were as follows:

Total OPEB liability	\$ 3,031,018
Plan fiduciary net position	<u>-</u>
Net OPEB liability	<u>\$ 3,031,018</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%

The following key assumptions were applied to all periods included in the alternative measurement method unless otherwise specified:

Assumed retirement age	65 years
Discount rate	4.0%, which approximates the 20-year municipal bond index rate
Salary increases	2.0% per annum
Healthcare cost trend rates	5.00% per annum
Life expectancy	The <i>Life Expectancy Table</i> from National Center for Health Statistics, updated in 2015

Discount Rate – The discount rate used to measure the total OPEB liability was 4.0%, which approximated a yield or index rate for twenty-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity Analyses – The following presents the Town’s net OPEB liability as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	1% Decrease (3.0%)	Current Discount (4.0%)	1% Increase (5.0%)
Net OPEB liability	\$ 3,394,711	\$ 3,031,018	\$ 2,685,770

	Healthcare Cost		
	1% Decrease (4.0%)	Trend Rates (5.0%)	1% Increase (6.0%)
Net OPEB liability	\$ 2,590,647	\$ 3,031,018	\$ 3,571,132

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 3,094,155	\$ -	\$ 3,094,155
Changes for the year:			
Service cost	221,010	-	221,010
Interest	123,766	-	123,766
Differences between expected and actual experience	(332,068)	-	(332,068)
Employer contributions	-	75,845	(75,845)
Benefit payments	(75,845)	(75,845)	-
Net changes	(63,137)	-	(63,137)
Balances at June 30, 2018	<u>\$ 3,031,018</u>	<u>\$ -</u>	<u>\$ 3,031,018</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Town recognized OPEB expense of \$12,708. As the Town uses an alternative measurement method to calculate its total OPEB liability, there are no deferred outflows or inflows of resources reported relative to the net OPEB liability.

PMLD Accounting Disclosures (GASB Statement No. 45)

PMLD Employees Covered by Benefit Terms – The PMLD’s membership consistent of the following as of the date of the latest actuarial valuation:

Inactive employees or beneficiaries receiving benefits	12
Active employees	<u>8</u>
	<u>20</u>

Funding Policy – The PMLD recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance premiums charged by the Town, which totaled \$125,258 for the year ended December 31, 2017. The PMLD currently contributes 40% of the costs of medical and dental insurance for both active and retired employees.

Annual OPEB Cost and Net OPEB Obligation – The PMLD’s annual OPEB cost is calculated based on the annual required contribution (“ARC”) of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the PMLD’s OPEB obligation:

Annual required contribution ("ARC")	\$ 108,381
Interest on net OPEB obligation	1,331
Adjustment to ARC	<u>(1,354)</u>
Annual OPEB cost	108,358
Contributions made	<u>(251,635)</u>
Decrease in net OPEB obligation	(143,277)
Net OPEB obligation - beginning of year	<u>167,496</u>
Net OPEB obligation - end of year	<u>\$ 24,219</u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Year Ended December 31,	Annual OPEB Cost (AOPEBC)	Percent of AOPEBC Contributed	Net OPEB Obligation
2017	\$ 108,358	232%	\$ 24,219
2016	108,358	54%	167,496
2015	108,358	16%	117,245

Funding Status and Funding Progress – The funded status of the PMLD OPEB Plan at June 30, 2018 as measured under GASB Statement No. 45 was as follows:

Actuarial accrued liability	\$ 825,819
Actuarial value of assets	<u>675,129</u>
Unfunded AAL (UAAL)	<u>\$ 150,690</u>
Funded ratio	81.8%
Covered payroll	<u>\$ 671,928</u>
UUAL as a percentage of covered payroll	22.4%

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The alternative measurement method used the entry-age cost method, and an assumed 5% annual increase in healthcare costs. The PMLD's UUAL is being amortized each year on a thirty-year level dollar basis.

OPEB Plan Disclosures (GASB Statement No. 74)

The PMLD's OPEB Plan is administered by the MMWEC and is in the MMWEC's custody.

Net OPEB Liability – The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 1,018,556
Plan fiduciary net position	<u>(675,129)</u>
Net OPEB liability	<u>\$ 343,427</u>
Plan fiduciary net position as a percentage of the total OPEB liability	66.3%

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following assumptions applied to all periods included in the measurement:

Discount rate	5.0% per annum
Salary increases	2.125% per annum
Healthcare cost trend rates	5.00% per annum
Life expectancy	Estimated based on the Expectation of Life by Age and Sex in the U.S. Table prepared by the National Center for Health Statistics (updated in 2015)

Investment Policy – The MMWEC maintains an investment policy for the assets it managed for the PMLD. The investment policy seeks to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct investment asset classes.

Investment Rate of Return –The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the PMLD’s money-weighted rate of return was 6.8%.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Equities	50%	8.50%
Fixed income	45%	5.65%
Cash and cash equivalents	5%	0.25%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.0%. The discount rate used assumes that the PMLD’s OPEB Plan’s fiduciary net position is sufficient to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on PMLD OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity Analyses – 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 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	<u>1% Decrease (4.0%)</u>	<u>Current Discount (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net OPEB liability	\$ 466,829	\$ 343,427	\$ 238,232

	<u>Healthcare Cost</u>		
	<u>1% Decrease (4.0%)</u>	<u>Trend Rates (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net OPEB liability	\$ 236,487	\$ 343,427	\$ 468,259

C. Risk Financing

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

The PMLD participates in the Massachusetts Municipal Utility Self-Insurance Trust Fund (the “Trust”) with seventeen other Massachusetts municipalities for the purpose of sharing excess liability and officers’ liability risks. General liability coverage provides for \$500,000 per occurrence, with a \$50,000 deductible. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible. Each participating municipality contributes to the Trust based on its share of the group’s total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets or, if required, additional contributions from the participants. The PMLD does not present estimated claims incurred but not reported as of December 31, 2017 as its pro rata share of these costs is no material to its financial statements.

D. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, in these situations at June 30, 2018 cannot be determined, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018.

Appellate Tax Board – Generally the Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). In total, real property values of approximately \$3,572,500 are in dispute with the ATB. The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these tax payers, if any. Furthermore, the Town cannot determine the likelihood of the taxpayers’ success at the ATB. Therefore, no such loss provision has been made in the Town’s basic financial statements.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town does not believe it has failed to comply with any of these agreements.

MMWEC Participation – The PMLD is a participant in certain projects of the MMWEC.

MMWEC is a public corporation and a political subdivision of the Commonwealth, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (“Projects”). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (“Project Capability”) of each of its Projects to its Members and other utilities (“Project Participants”) under Power Sales Agreements (“PSAs”). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC’s costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC’s debt service to be paid into a Reserve and Contingency Fund.

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

PMLD has entered into PSAs and Power Purchase Agreements (“PPAs”) with MMWEC. Under both the PSAs and PPAs, the PMLD is required to make certain payments to MMWEC payable solely from PMLD revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

Berkshire Wind Cooperative – The PMLD is a member of the Berkshire Wind Cooperation Corporation (the “Cooperative”). The Cooperative was formed by the MMWEC and fourteen municipal light departments (the “Members”) for the purpose of financing, owning, constructing and operating certain wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (“Berkshire Wind Facility”).

The Cooperative has constructed and installed ten 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (“Capability”) to the Members under PPAs. Among other things, the PPAs require each Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Member fail to make any payment when due, other cooperative members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative’s cost of owning and operating the Berkshire Wind Facility.

The PMLD has entered into a PPA with the Cooperative. Under the PPA, each participant is unconditionally obligated to make all payments due to the Cooperative, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the PMLD is required to pay to the Cooperative its share of the operation and maintenance costs of the Berkshire Wind Facility.

As of December 31, 2017, total capital expenditures for the Berkshire Wind Facility amounted to \$59,256,145, of which \$2,496,000 presents the amount associated with the PMLD's share of the Capability of the Berkshire Wind Facility, of which it is a Member, although such amount is not allocated to the PMLD. The Cooperative's debt outstanding for the Berkshire Wind Facility includes bonds totaling \$46,000,000, of which \$1,938,000 is associated with the PMLD's share of Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the PMLD.

As of December 31, 2017, the Cooperative's total future debt service requirement on outstanding bonds issued for certain projects of the MMWEC (the "Projects") is \$62,399,000, of which \$2,628,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of the PMLD required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2017 and estimated for future years is as follows:

<u>For Years Ending December 31,</u>	
2018	\$ 216,000
2019	213,000
2020	201,000
2021	201,000
2022	201,000
2023 to 2027	1,000,000
2028 to 2030	<u>596,000</u>
	<u>\$ 2,628,000</u>

MMWEC Commitments and Litigation – Through membership in MMWEC, the PMLD is contingently liable on the various projects in which they participate as detailed below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. ("DNCF"), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCF also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC ("NextEra Seabrook") the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional twenty years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (the "Act"). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

As of December 31, 2017, total capital expenditures for MMWEC's Projects amounted to \$1,583,481,000, of which \$11,483,000 represents the amount associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totals \$10,680,000, of which \$82,000 is associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$88,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of PMLD's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated for future years is shown below.

<u>For Years Ending December 31,</u>	<u>Annual Costs</u>
2018	\$ 25,000
2019	<u>63,000</u>
	<u>\$ 88,000</u>

In addition, under the PSAs, the PMLD is required to pay to MMWEC its share of the operation and maintenance costs of the Projects in which it participates. The PMLD's total operation and maintenance costs, including debt service, under the PSAs was \$754,000 for the year ended December 31, 2017.

Other Power Supply – The PMLD has entered into an All Requirements Bulk Power Sales Agreement (the “All Requirements Agreement”) with MMWEC, under which MMWEC provides, delivers and sells all electric power and energy to PMLD, whether through owned generation, purchased power contracts or other power supply arrangements. Under the terms of the All Requirements Agreement, the PMLD is committed to purchase additional power through the MMWEC in the amount of \$177,391 in 2018, \$148,250 in 2019, \$90,291 in 2020 and \$33,586 in 2021.

IV. Implementation of GASB Pronouncements

A. Current Year Implementations

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018 for the Town; the PMLD will adopt this standard in fiscal year 2019. The adoption of GASB No. 75 resulted in a reduction in beginning net position of approximately \$1.5 million in the Town’s governmental and business-type activities. Refer to Note V.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town’s financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement was to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town’s financial statements.

B. Future Year Implementations

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Restatement

The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of the adoption of GASB Statement No. 75 was to eliminate the net OPEB obligation recorded in the Town financial statements and record the net OPEB liability at June 30, 2017. The PMLD will adopt this accounting standard in fiscal year 2019. The impact is illustrated in the table below:

	Governmental Activities	Business-Type Activities		
		Water	Electric Light	Total
Net position at June 30, 2017, as reported	\$ 7,596,237	\$ 2,069,060	\$ 3,288,777	\$ 5,357,837
Eliminate recorded OPEB obligation (GASB No. 45)	1,498,213	67,318	-	67,318
Record net OPEB liability (GASB No. 75)	(2,961,106)	(133,049)	-	(133,049)
Net position at June 30, 2017, as restated	<u>\$ 6,133,344</u>	<u>\$ 2,003,329</u>	<u>\$ 3,288,777</u>	<u>\$ 5,292,106</u>

* * * * *

TOWN OF PAXTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	2017	Year Ended December 31,		2014
		2016	2015	
Town's proportion of the net pension liability (asset)	1.1832%	0.9909%	0.9894%	1.0517%
Town's proportionate share of the net pension liability (asset)	\$ 9,648	\$ 8,300	\$ 7,061	\$ 6,258
Town's covered payroll	\$ 3,037	\$ 2,963	\$ 2,610	\$ 2,509
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	317.7%	280.1%	270.5%	249.4%
Plan fiduciary net position as a percentage of the total pension liability	46.40%	42.00%	44.52%	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	2018	Year Ended June 30,		2015
		2017	2016	
Actuarially determined contribution	\$ 599	\$ 481	\$ 445	\$ 416
Contributions in relation to the actuarially determined contribution	599	481	445	416
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 3,037	\$ 2,963	\$ 2,610	\$ 2,509
Contributions as a percentage of covered-employee payroll	19.7%	16.2%	17.0%	16.6%

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

See accompanying independent auditor's report.

TOWN OF PAXTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - PMLD OPEB PLAN
YEAR ENDED DECEMBER 31, 2017**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 79,053
Interest	46,155
Benefit payments	<u>(29,760)</u>
Net change in total OPEB liability	95,448
Total OPEB liability - beginning of year	<u>923,108</u>
Total OPEB liability - end of year (a)	<u><u>\$ 1,018,556</u></u>
 Plan fiduciary net position:	
Contributions - employer	\$ 257,657
Net investment income	68,755
Benefit payments	<u>(29,760)</u>
Net change in Plan fiduciary net position	296,652
Plan fiduciary net position - beginning of year	<u>378,477</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 675,129</u></u>
 Net OPEB liability - end of year (a) - (b)	<u><u>\$ 343,427</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	66.3%
 Covered payroll	\$ 671,928
 Net OPEB liability as a percentage of covered payroll	51.1%

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

See accompanying independent auditor's report.

TOWN OF PAXTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - PMLD OPEB PLAN
YEAR ENDED DECEMBER 31, 2017**

SCHEDULE OF CONTRIBUTIONS

	<u>2017</u>
Actuarially-determined contribution	\$ 113,678
Contributions in relation to the actuarially-determined contribution	<u>(233,897)</u>
Contribution deficiency (excess)	<u>\$ (120,219)</u>
Covered payroll	\$ 671,928
Contribution as a percentage of covered payroll	34.8%

Notes to Schedule

Actuarial cost method	Individual entry age normal
Amortization method	Increasing at 5% over 25 years on a closed amortization period
Asset valuation method	Market value of assets as of reporting date
Inflation	2.125%
Investment rate of return	5.0%
Healthcare cost trend rates	5.0%

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	6.8%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

TOWN OF PAXTON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Positive
	Budget	Budget	Amounts		Adjusted	(Negative)
Revenues						
Real estate and personal property	\$ 10,316,841	\$ 10,316,841	\$ 10,402,193		\$ 10,402,193	\$ 85,352
Intergovernmental	998,283	998,283	1,011,653		1,011,653	13,370
Motor vehicle and other excises	644,000	644,000	717,941		717,941	73,941
Licenses and permits	55,000	55,000	84,735		84,735	29,735
Departmental and other revenue	347,000	347,000	417,101		417,101	70,101
Penalties and interest	15,000	15,000	43,007		43,007	28,007
Fines and forfeitures	6,000	6,000	10,393		10,393	4,393
Investment income	2,000	2,000	11,479		11,479	9,479
Total Revenues	12,384,124	12,384,124	12,698,502		12,698,502	314,378
Expenditures						
General government	983,498	983,498	848,346	-	848,346	135,152
Public safety	2,182,614	2,182,614	2,159,301	875	2,160,176	22,438
Education	6,259,204	6,319,204	6,318,294	-	6,318,294	910
Public works	1,165,583	1,165,583	1,123,628	131	1,123,759	41,824
Health and human services	84,536	84,536	74,548	-	74,548	9,988
Culture and recreation	204,903	204,903	195,027	434	195,461	9,442
Fringe and pension benefits	1,078,324	1,078,324	972,040	-	972,040	106,284
State and county tax assessments	28,592	28,592	28,592	-	28,592	-
Debt service	1,169,324	1,169,324	1,165,823	-	1,165,823	3,501
Total Expenditures	13,156,578	13,216,578	12,885,599	\$ 1,440	12,887,039	329,539
Other Financing Sources (Uses)						
Transfers in	376,198	376,198	376,198		376,198	-
Transfers out	-	-	-		-	-
Total Other Financing Sources (Uses)	376,198	376,198	376,198		376,198	-
(Deficiency) excess of revenues and other financing sources over expenditures/use of prior year budgetary fund balance	(396,256)	(456,256)	\$ 189,101		\$ 187,661	\$ 643,917
Other Budgetary Items:						
Prior year encumbrances	46,895	46,895				
Free cash	398,384	398,384				
Overlay release	-	60,000				
Other	(49,023)	(49,023)				
Total Other Budgetary Items	396,256	456,256				
Net Budget	\$ -	\$ -				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

TOWN OF PAXTON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund and each enterprise fund. Financial orders are initiated by the Town Administrator, recommended by the Town Finance Committee and approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2018, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 12,698,502
Stabilization revenue	\$ -	\$ (537)	(537)
Change in accruing revenues to GAAP basis	9,210	-	9,210
Revenues on a GAAP basis	<u>\$ 9,210</u>	<u>\$ -</u>	<u>\$ 12,707,175</u>

Expenditures were the same on both a budgetary-basis and GAAP-basis and therefore no reconciliation is presented above.



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

The Honorable Members of the Board of Selectmen
Town of Paxton, Massachusetts

We have audited, 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, the financial statements of the Town of Paxton, Massachusetts (the "Town"), as of and for the year ended June 30, 2018 (except for the Paxton Municipal Light Department, which is as of December 31, 2017), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 23, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
January 23, 2019