

TOWN OF STOW, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Independent Auditors' Report

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Stow, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Stow, Massachusetts, as of and for the year ended June 30, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Stow, as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 through 12, and certain *Required Supplementary Information* on pages 46 through 48 be presented to supplement the basic financial statements. This information although not part of the basic financial statements, is required by the *Government Accounting Standards Board* (GASB) and is an essential part of financial reporting to present the basic financial statements in an appropriate operational, economic, and 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 principally of inquiries of management regarding 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 this 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 our report dated July 5, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Stow's internal control over financial reporting and compliance.

July 5, 2018

Management's Discussion and Analysis

As management of the Town of Stow, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$40,376,896 (net position). Of this amount, (\$4,168,818) (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$517,251, primarily due to capital outlays of approximately \$2.8M.
- As of the close of the fiscal year, unassigned fund balance for the general fund totaled \$4,009,645, or 14.2 percent, of total general fund revenues and other financing sources of \$28,142,836.
- The Town's total bonded debt decreased by \$1,550,707 during the fiscal year. No new debt was issued and \$1,550,707 was retired during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other supplemental information in addition to the basic financial statements.

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 non-fiduciary assets and liabilities, 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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements report functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, and debt service (interest).

The government-wide financial statements can be found on pages 14-15 of this report.

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 Town's funds can be divided into the following categories and are described below:

1. Governmental funds
2. Fiduciary funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 136 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, community preservation, elementary school construction, Community Center/Fire Station, and library trust fund, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided (page 20) to demonstrate compliance with the fiscal year 2017 budget.

The basic governmental funds financial statements can be found on pages 16-19 of this report.

Fiduciary funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 21-22 of this report.

Notes to the basic 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. The notes to the financial statements can be found on pages 23-45 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is certain pension information, which can be found on pages 46-48 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$40,376,896 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2017	2016
Assets		
Current assets.....	\$ 10,396,505	\$ 7,991,108
Noncurrent assets (excluding capital assets).....	8,725,849	13,929,507
Capital assets (net).....	<u>58,900,597</u>	<u>57,651,338</u>
Total assets.....	<u>78,022,951</u>	<u>79,571,953</u>
Deferred outflows of resources	1,345,431	534,653
Liabilities		
Current liabilities (excluding debt).....	464,800	1,331,721
Noncurrent liabilities (excluding debt).....	12,508,787	11,023,120
Current debt.....	11,326,791	11,626,707
Noncurrent debt.....	<u>14,651,507</u>	<u>16,257,298</u>
Total liabilities.....	<u>38,951,885</u>	<u>40,238,846</u>

Deferred inflows of resources	39,601	8,115
Net Position		
Invested in capital assets (net of related debt).....	34,409,021	32,501,582
Restricted.....	10,136,693	8,208,079
Unrestricted.....	<u>(4,168,818)</u>	<u>(850,016)</u>
Total net position.....	<u>\$ 40,376,896</u>	<u>\$ 39,859,645</u>

The largest portion of the Town's net position (85.2%) reflects its investment in capital assets (e.g., land, intangible assets, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (25.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position ((10.3)% or (\$4,168,818)) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports a positive balance in two categories of net position.

Changes in Net Position

	<i>Governmental Activities</i>	
	2017	2016
Revenues		
<i>Program Revenues:</i>		
Charges for services.....	\$ 822,616	\$ 790,875
Operating grants and contributions.....	835,409	1,749,589
Capital grants and contributions.....	162,562	93,754
<i>General Revenues:</i>		
Real estate and personal property taxes.....	25,096,494	23,930,575
Motor vehicle and other excise taxes.....	1,135,607	1,093,352
Penalties and interest on taxes.....	71,433	41,280
Payments in lieu of taxes.....	58,898	74,257
Community preservation surcharges.....	546,476	481,472
Grants and contributions not restricted to specific programs.....	404,767	388,080
Unrestricted investment income.....	15,216	9,206
Premium from issuance of bonds and notes..	54,939	81,080
Other.....	<u>27,071</u>	<u>7,467</u>
Total revenues.....	<u>29,231,488</u>	<u>28,740,987</u>

Expenses		
General government.....	4,626,276	9,112,028
Public safety.....	1,676,010	(3,600,688)
Education.....	18,229,733	17,548,657
Public works.....	1,784,611	1,565,044
Health and human services.....	799,514	607,666
Culture and recreation.....	753,119	797,477
Debt service - interest.....	794,974	702,482
Total expenses.....	28,664,237	26,732,666
Change in net position.....	517,251	1,958,321
Restatement for net pension liability		
Net position - beginning of year.....	39,859,645	37,901,324
Net position - end of year.....	\$ 40,376,896	\$ 39,859,645

For the fiscal year ended June 30, 2017, the Town's total net position increased by \$517,251, compared to an increase of \$1,958,321 in the prior fiscal year.

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$6,278,660, a increase of \$943,416 in comparison with the prior year. Approximately (88.8%) of this total amount (\$5,576,020) represents unassigned fund balance. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Nonspendable (\$382,357)
- Restricted (\$10,295,778)
- Committed (\$1,270,622)
- Assigned (\$8,424)

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 totaled \$4,009,645, while total fund balance was \$5,488,052. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 14.5% of total general fund expenditures, while total fund balance represents 19.8% of that same amount.

The balance of the Town's general fund increased by \$411,203 during fiscal year 2017. Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the community preservation fund (special revenue) increased by \$544,397 during the current fiscal year, which is primarily attributable to \$566,325 in Community Preservation surcharges, \$158,462 in State Trust match funds, \$97,128 of investment income and \$282,498 of expenditures.

The fund balance of the elementary school construction fund (capital project) decreased by \$125,357 during the current fiscal year, which is attributable to \$125,357 of expenditures.

The fund balance of the community center/fire station fund (capital project) decreased by \$2,010,523 during the current fiscal year, which is attributable to \$2,010,523 of expenditures.

The fund balance of the library trust fund (permanent fund) increased by \$56,103 during the current fiscal year, which is attributable to \$28,140 of donations, \$82,349 of investment income and \$54,386 of expenditures.

General Fund Budgetary Highlights

The original general fund budget of \$28,708,191 was increased by \$15,000 (.11%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Veterans.....	\$ 15,000	Available Funds

During the year, general fund revenues exceeded budgetary estimates and expenditures were less, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$824,006.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$58,900,597 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 1%. Major capital asset events that occurred during the current fiscal year include the following:

- Fire station/community center (\$9,630,960)
- Dunn Property Conservation Restriction (\$23,250)
- Ford F-250 Fire Engine (\$56,407)
- Ford Interceptor Utility for the police department (\$38,751)
- Dump/Sander (\$214,278)
- Road work (\$233,726)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>	
	2017	2016
Land.....	\$ 9,406,688	\$ 9,406,688
Intangible assets.....	144,250	121,000
Construction in progress.....	323,292	7,822,731
Land improvements.....	883,325	928,514
Buildings and improvements.....	44,467,699	35,954,874
Machinery and equipment.....	518,835	611,793
Vehicles.....	750,012	563,534
Library books.....	33,527	36,878
Infrastructure.....	2,372,969	2,205,326
Total capital assets.....	<u>\$ 58,900,597</u>	<u>\$ 57,651,338</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 35-36 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$16,257,298, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2017	2016
General obligation bonds.....	<u>\$ 16,257,298</u>	<u>\$ 17,808,005</u>

The Town's total bonded debt decreased by \$1,550,707 (8.7%) during the current fiscal year.

State statutes limit the amount of general obligation debt the Town may issue to 5% of its total assessed valuation. The current debt limit is \$60,900,956.

Additional information on the Town's long-term debt can be found in Note 8 on pages 37-39 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Town's fiscal year 2018 budget:

- Overall anticipated fiscal year 2018 revenues were expected to show a small increase over fiscal year 2017. Revenues from property taxes were expected to increase, as permitted by Proposition 2 ½. The rate of new growth was expected to remain the same as compared to fiscal year 2017. State aid to cities and towns, local schools and regional school districts were expected to increase as compared to the year earlier as well as local receipts. To balance the fiscal year 2018 budget, the Town used \$523,000 of free cash (undesignated fund balance).

- Fiscal year 2018 budgeted expenditures provided for a very modest increase as compared to fiscal year 2017. For non-contractual employees the budget included cost-of-living increases and scheduled wage and classification adjustments. For employees under contract, all contractual obligations were funded. Increased costs in benefits, health insurance and retirement obligations for current and former employees were also provided.

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 its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 380 Great Road, Stow, MA 01775.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2017

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 6,099,510
Restricted cash and cash equivalents.....	2,590,371
Investments.....	64,391
Receivables, net of allowance for uncollectible amounts:	
Real estate and personal property taxes.....	333,171
Real estate tax deferrals.....	4,891
Tax and utility liens.....	414,828
Motor vehicle and other excise taxes.....	146,556
Community preservation surcharges.....	4,207
Special assessments.....	316
Departmental and other.....	23,013
Intergovernmental.....	609,774
Tax foreclosures.....	105,477
Total current assets.....	10,396,505
Noncurrent assets:	
Restricted investments.....	7,545,001
Receivables, net of allowance for uncollectible amounts:	
Special assessments.....	164,939
Intergovernmental.....	1,015,909
Capital assets not being depreciated.....	9,874,230
Capital assets, net of accumulated depreciation.....	49,026,367
Total noncurrent assets.....	67,626,446
Total assets.....	78,022,951
Deferred outflows of financial resources.....	1,345,431
LIABILITIES	
Current liabilities:	
Warrants payable.....	115,803
Accrued payroll.....	110,312
Other liabilities.....	72,950
Abandoned property.....	9,895
Accrued interest.....	141,992
Compensated absences.....	13,848
Short-term notes payable.....	9,721,000
Long-term bonds and notes payable.....	1,605,791
Total current liabilities.....	11,791,591
Noncurrent liabilities:	
Other post-employment benefits.....	1,890,493
Pension liability.....	10,493,658
Compensated absences.....	124,636
Long-term bonds and notes payable.....	14,651,507
Total noncurrent liabilities.....	27,160,294
Total liabilities.....	38,951,885
Deferred inflows of financial resources.....	39,601
NET POSITION	
Invested in capital assets, net of related debt.....	34,409,021
Restricted for:	
Community preservation.....	7,478,936
Library trust fund.....	674,993
Debt service.....	199,361
Permanent funds:	
Expendable.....	681,581
Nonexpendable.....	382,357
Other specific purposes.....	719,465
Unrestricted.....	(4,168,818)
Total net position.....	\$ 40,376,896

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 4,626,276	\$ 99,476	\$ 456,925	\$ -	\$ (4,069,875)
Public safety.....	1,676,010	408,237	21,051	-	(1,246,722)
Education.....	18,229,733	-	51,596	-	(18,178,137)
Public works.....	1,784,611	15,467	15,095	162,562	(1,591,487)
Health and human services.....	799,514	56,035	69,123	-	(674,356)
Culture and recreation.....	753,119	243,401	126,970	-	(382,748)
Debt service - interest.....	794,974	-	94,649	-	(700,325)
Total primary government.....	\$ 28,664,237	\$ 822,616	\$ 835,409	\$ 162,562	(26,843,650)
<i>General revenues:</i>					
Real estate and personal property taxes.....					25,096,494
Motor vehicle and other excise taxes.....					1,135,607
Penalties and interest on taxes.....					71,433
Payments in lieu of taxes.....					58,898
Community preservation surcharges.....					546,476
Grants and contributions not restricted to specific programs.....					404,767
Unrestricted investment income.....					15,216
Premium from issuance of bonds and notes.....					54,939
Other.....					27,071
<i>Transfers, net</i>					<u>(50,000)</u>
Total general revenues.....					<u>27,360,901</u>
Change in net position.....					517,251
Net position - beginning of year.....					<u>39,859,645</u>
Net position - end of year.....					<u>\$ 40,376,896</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2017

	General	Community Preservation Fund	Elementary School Construction	Community Center/ Fire Station	Library Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents.....	\$ 5,711,577	\$ -	\$ -	\$ -	\$ -	\$ 387,933	\$ 6,099,510
Investments.....	49,935	-	-	-	-	14,456	64,391
Receivables, net of allowance for uncollectible amounts:							
Real estate and personal property taxes.....	333,171	-	-	-	-	-	333,171
Real estate tax deferrals.....	4,891	-	-	-	-	-	4,891
Tax liens.....	393,777	7,373	-	-	-	13,678	414,828
Motor vehicle and other excise taxes.....	146,556	-	-	-	-	-	146,556
Community preservation surcharges.....	-	4,207	-	-	-	-	4,207
Special assessments.....	-	-	-	-	-	165,255	165,255
Departmental and other.....	23,013	-	-	-	-	-	23,013
Intergovernmental.....	1,486,722	138,961	-	-	-	-	1,625,683
Tax foreclosures.....	105,477	-	-	-	-	-	105,477
Restricted assets:							
Cash and cash equivalents.....	-	2,490,743	29,436	9,362	60,830	-	2,590,371
Investments.....	-	4,988,350	-	-	614,163	1,942,488	7,545,001
TOTAL ASSETS.....	\$ 8,255,119	\$ 7,629,634	\$ 29,436	\$ 9,362	\$ 674,993	\$ 2,523,810	\$ 19,122,354
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ 103,030	\$ 156	\$ -	\$ -	\$ -	\$ 12,617	\$ 115,803
Accrued payroll.....	96,933	-	-	36	-	13,343	110,312
Other liabilities.....	72,950	-	-	-	-	-	72,950
Abandoned property.....	9,895	-	-	-	-	-	9,895
Accrued short-term interest.....	31,959	-	-	-	-	-	31,959
Short-term notes payable.....	-	-	495,000	8,951,000	-	275,000	9,721,000
TOTAL LIABILITIES.....	314,767	156	495,000	8,951,036	-	300,960	10,061,919
DEFERRED INFLOWS OF RESOURCES:							
Unavailable revenues.....	2,452,300	150,542	-	-	-	178,933	2,781,775
FUND BALANCES:							
Nonspendable.....	-	-	-	-	-	382,357	382,357
Restricted.....	199,361	7,478,936	-	-	674,993	1,942,488	10,295,778
Committed.....	1,270,622	-	-	-	-	-	1,270,622
Assigned.....	8,424	-	-	-	-	-	8,424
Unassigned.....	4,009,645	-	(465,564)	(8,941,674)	-	(280,928)	(5,678,521)
TOTAL FUND BALANCES.....	5,488,052	7,478,936	(465,564)	(8,941,674)	674,993	2,043,917	6,278,660
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 8,255,119	\$ 7,629,634	\$ 29,436	\$ 9,362	\$ 674,993	\$ 2,523,810	\$ 19,122,354

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Total governmental fund balances (page 17).....	\$ 6,278,660
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	58,900,597
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	2,781,775
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....	(110,033)
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings on pension plan investments.....	1,305,830
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds and notes payable.....	(16,257,298)
Net OPEB obligation.....	(1,890,493)
Net pension liability.....	(10,493,658)
Compensated absences.....	(138,484)
Net position of governmental activities (page 14).....	\$ <u>40,376,896</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Community Preservation Fund	Elementary School Construction	Community Center/ Fire Station	Library Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Real estate and personal property taxes.....	\$ 25,096,695	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,096,695
Motor vehicle and other excise taxes.....	1,078,738	-	-	-	-	-	1,078,738
Tax liens.....	165,426	3,620	-	-	-	-	169,046
Payments in lieu of taxes.....	58,898	-	-	-	-	-	58,898
Community preservation surcharges.....	-	566,325	-	-	-	-	566,325
Charges for services.....	201,146	-	-	-	-	-	201,146
Intergovernmental.....	984,462	158,462	-	-	-	246,556	1,389,480
Special assessments.....	-	-	-	-	-	68,296	68,296
Penalties and interest on taxes.....	69,597	1,360	-	-	-	476	71,433
Licenses, permits and fees.....	294,737	-	-	-	-	313,069	609,806
Fines and forfeitures.....	6,738	-	-	-	-	-	6,738
Departmental.....	7,713	-	-	-	-	-	7,713
Contributions.....	-	-	-	-	28,140	179,622	207,762
Investment income.....	31,712	97,128	-	-	82,349	57,150	268,339
Other.....	27,071	-	-	-	-	11,465	38,536
TOTAL REVENUES.....	28,022,933	826,895	-	-	110,489	878,634	29,838,951
EXPENDITURES							
Current:							
General government.....	1,528,922	282,498	-	2,010,523	-	194,157	4,016,100
Public safety.....	2,464,459	-	-	-	-	52,277	2,516,736
Education.....	17,093,566	-	125,357	-	-	24,956	17,243,879
Public works.....	1,499,518	-	-	-	-	166,628	1,666,146
Health and human services.....	416,008	-	-	-	-	42,939	458,947
Culture and recreation.....	369,901	-	-	-	54,386	216,891	641,178
Pension benefits.....	748,612	-	-	-	-	-	748,612
Employee benefits.....	877,463	-	-	-	-	-	877,463
Property and liability insurance.....	133,941	-	-	-	-	-	133,941
Other.....	19,109	-	-	-	-	-	19,109
State and county charges.....	102,312	-	-	-	-	-	102,312
Debt service:							
Principal.....	1,550,707	-	-	-	-	-	1,550,707
Interest.....	812,176	-	-	-	-	-	812,176
TOTAL EXPENDITURES.....	27,616,694	282,498	125,357	2,010,523	54,386	697,848	30,787,306
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	406,239	544,397	(125,357)	(2,010,523)	56,103	180,786	(948,355)
OTHER FINANCING SOURCES (USES)							
Transfers in.....	64,964	-	-	-	-	67,327	132,291
Premium from issuance of bonds and notes.....	54,939	-	-	-	-	-	54,939
Transfers out.....	(114,939)	-	-	-	-	(67,352)	(182,291)
TOTAL OTHER FINANCING SOURCES (USES).....	4,964	-	-	-	-	(25)	4,939
NET CHANGE IN FUND BALANCES.....	411,203	544,397	(125,357)	(2,010,523)	56,103	180,761	(943,416)
FUND BALANCES AT BEGINNING OF YEAR.....	5,076,849	6,934,539	(340,207)	(6,931,151)	618,890	1,863,156	7,222,076
FUND BALANCES AT END OF YEAR.....	\$ 5,488,052	\$ 7,478,936	\$ (465,564)	\$ (8,941,674)	\$ 674,993	\$ 2,043,917	\$ 6,278,660

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds (page 21).....	\$ (943,416)
<p>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. These amounts represent the related activity of the current period.</p>	
Capital outlays.....	2,881,862
Depreciation.....	(1,632,603)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>	
	(503,902)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount represents the related activity of the current period.</p>	
Bond maturities.....	1,550,707
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>	
	17,202
<p>Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:</p>	
Net difference between projected and actual earnings on pension plan investments.....	631,882
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amounts represent the net changes:</p>	
Pension benefits.....	(1,259,472)
Other post-employment benefits.....	(236,870)
Compensated absences.....	11,861
Changes in net position of governmental activities (page 15).....	\$ <u>517,251</u>

See notes to basic financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
REVENUES					
Real estate and personal property taxes.....	\$ 24,858,832	\$ 24,858,832	\$ 25,096,695	\$ 25,096,695	\$ 237,863
Motor vehicle and other excise taxes.....	1,075,000	1,075,000	1,078,738	1,078,738	3,738
Tax liens.....	-	-	165,426	165,426	165,426
Payments in lieu of taxes.....	60,000	60,000	58,898	58,898	(1,102)
Charges for services.....	200,000	200,000	201,146	201,146	1,146
Intergovernmental.....	987,831	987,831	984,462	984,462	(3,369)
Penalties and interest on taxes.....	35,000	35,000	69,597	69,597	34,597
Licenses, permits and fees.....	230,000	230,000	294,737	294,737	64,737
Fines and forfeitures.....	10,000	10,000	6,738	6,738	(3,262)
Departmental.....	10,000	10,000	7,713	7,713	(2,287)
Investment income.....	9,000	9,000	15,216	15,216	6,216
Other.....	2,000	2,000	27,071	27,071	25,071
TOTAL REVENUES.....	27,477,663	27,477,663	28,006,437	28,006,437	528,774
EXPENDITURES					
Current:					
General government.....	1,898,449	1,849,055	1,528,922	1,717,882	131,173
Public safety.....	2,731,459	2,804,373	2,464,459	2,738,515	65,858
Education.....	17,132,066	17,132,066	17,093,566	17,132,066	-
Public works.....	1,638,023	1,603,206	1,499,518	1,608,295	(5,089)
Health and human services.....	424,615	455,615	416,008	438,363	17,252
Culture and recreation.....	493,786	489,082	369,901	463,933	25,149
Pension benefits.....	748,612	748,612	748,612	748,612	-
Employee benefits.....	909,851	909,851	877,463	905,972	3,879
Property and liability insurance.....	172,917	172,917	133,941	133,941	38,976
Other.....	32,054	32,054	19,109	19,836	12,218
State and county charges.....	102,872	102,872	102,312	102,312	560
Debt service:					
Principal.....	1,550,707	1,550,707	1,550,707	1,550,707	-
Interest.....	812,780	812,780	812,471	812,471	309
TOTAL EXPENDITURES.....	28,648,191	28,663,190	27,616,989	28,372,905	290,285
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,170,528)	(1,185,527)	389,448	(366,468)	819,059
OTHER FINANCING SOURCES (USES)					
Transfers in.....	60,017	60,017	64,964	64,964	4,947
Transfers out.....	(60,000)	(60,000)	(60,000)	(60,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	17	17	4,964	4,964	4,947
NET CHANGE IN FUND BALANCE.....	(1,170,511)	(1,185,510)	394,412	(361,504)	824,006
FUND BALANCE AT BEGINNING OF YEAR.....	4,164,222	4,164,222	4,164,222	4,164,222	-
FUND BALANCE AT END OF YEAR.....	\$ 2,993,711	\$ 2,978,712	\$ 4,558,634	\$ 3,802,718	\$ 824,006

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Other Post- Employment Benefits	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 337	\$ 36,180	\$ 79,269
Investments.....	164,413	-	-
Departmental and other.....	-	-	34,900
Total assets.....	<u>164,750</u>	<u>36,180</u>	<u>114,169</u>
LIABILITIES			
Liabilities due depositors.....	-	-	114,169
NET POSITION			
Held in trust for other purposes.....	<u>\$ 164,750</u>	<u>\$ 36,180</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Other Post- Employment Benefits	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer.....	\$ 50,000	\$ -
Net investment income:		
Interest.....	10,673	8
TOTAL ADDITIONS.....	60,673	8
DEDUCTIONS		
Other.....	-	4,500
CHANGE IN NET POSITION.....	60,673	(4,492)
NET POSITION AT BEGINNING OF YEAR.....	104,077	40,672
NET POSITION AT END OF YEAR.....	\$ 164,750	\$ 36,180

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Stow, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Nashoba Regional School District (NRSD)

The NRSD is governed by a ten member school committee consisting of two elected representative from the Town. The Town is indirectly liable for the NRSD debt and other expenditures and is assessed annually for its share of operating and capital costs. For fiscal year ended June 30, 2017, the Town's assessment totaled \$16,491,359. Separate financial statements may be obtained by writing to the Treasurer of the NRSD at 50 Mechanic Street, Bolton, MA 01740.

Minuteman Regional High School (MRHS)

The MRHS is governed by a seventeen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the MRHS debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2017, the Town's assessment totaled \$577,577. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, MA 02421-7313.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net position and the statement activities) report information on all non-fiduciary activities of the primary government and its component units where applicable. For the most part, the effect of interfund activity has been removed from these statements; except interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges for support.

Separate financial statements are provided for governmental 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.

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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 have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means 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.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes.

The *elementary school construction fund* is a capital projects fund used to account for the accumulation of resources to construct an elementary school.

The *community center/fire station* is a capital projects fund used to account for the accumulation of resources to remodel the Pomositticut school into a community center and fire station.

The *library trust fund* is a permanent fund used to account for investment income earned and expended on monies entrusted to the Randall Library Trustees.

The 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 fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds and permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support governmental programs.

Fiduciary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

The *other postemployment benefit trust fund* accumulates resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed approximately six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with

the real estate tax in August, November, February and May and is subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges would be included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Departmental and Other

Departmental and other receivables consist primarily of ambulance and police detail charges and are recorded as receivables in the fiscal year accrued.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

G. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes

Real estate taxes are secured via the lien process and are considered 100% collectible. Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide Financial Statements

Capital assets, which consist of land, intangible assets, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure, are reported in the governmental activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is not capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land, construction in progress and intangible assets) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Land improvements.....	20 - 30
Buildings and improvements.....	7 - 40
Machinery and equipment.....	5 - 10
Vehicles.....	5 - 15
Library books.....	10
Infrastructure.....	40

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Funds Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

K. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements

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 (expenses/expenditure) until then. The Town has reported deferred outflows of resources related to pensions in this category.

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 has reported deferred outflows of resources related to pensions in this category.

Governmental Fund Financial Statements

In addition to assets, the governmental funds balance sheet 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 (expenses/expenditure) until then. The Town does not have any items that qualify for reporting in this category.

In addition to liabilities, the governmental funds balance sheet 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 has reported unavailable revenues from property taxes as deferred inflows of resources in this category.

L. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

N. Unavailable Revenue

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

O. Net position and Fund Equity

Government-Wide Financial Statements (Net position)

Net position are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position have been "restricted" for the following:

"Community preservation" represents amounts restricted for open space, historic resource and affordable housing purposes.

"Library" represents amounts restricted for library use as determined by the Library Board of Trustees.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund)

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as a liability in the government-wide fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

Q. 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 Massachusetts General Law (MGL).

R. Compensated Absences

Employees earn vacation and sick leave as they provide services. Accumulation of vacation and sick leave is determined on a fiscal year basis.

Employees are granted fifteen (15) days sick leave for each fiscal year of employment. Unused sick leave in any year may be accumulated from sixty (60) to one hundred twenty (120) days depending upon the employee's collective bargaining group. Unused sick leave does not vest upon termination of employment.

The maximum number of vacation days carried as accrued vacation leave into a new fiscal year is limited to the number of days accrued during the prior fiscal year.

*S. Post Retirement Benefits*Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health, dental and life insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2017, this expenditure totaled approximately \$236,000. There were approximately 45 participants eligible to receive benefits at June 30, 2017.

*T. Use of Estimates*Government-Wide and Fund Financial Statements

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.

*U. Total Column*Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY*A. Budgetary Information*

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2017 approved budget for the general fund authorized \$28,708,191 in appropriations and other amounts to be raised. During fiscal year 2017, supplemental appropriations totaling \$15,000 were authorized.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2017, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 28,006,437	\$ 27,616,989
<u>Adjustments</u>		
Net change in recording short-term interest accrual.....	-	(295)
Stabilization interest income.....	<u>16,496</u>	<u>-</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 28,022,933</u>	<u>\$ 27,616,694</u>

C. Fund Deficits

At June 30, 2017, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Community Center/Fire Station.....	\$ 8,941,674	Issuance of long-term debt
Elementary School Project.....	486,841	Issuance of long-term debt
Fitz-Patrick property.....	275,000	Issuance of long-term debt
Police details.....	34,900	Available funds
State 911 grant.....	3,799	State grant
Emergency Management grant.....	1,160	State grant
COA gift.....	969	Available funds

D. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations for snow and ice.

NOTE 3 - DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of private purpose trust funds and permanent funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2017, \$458,104 of the Town's bank balance of \$16,558,969 was uninsured and exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2017 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
Corporate bonds.....	\$ 448,776	\$ 448,776	\$ -	\$ -
Money market mutual funds.....	415,606	415,606	-	-
Fixed income securities.....	5,225,744	1,638,260	3,587,484	-
Total debt securities.....	6,090,126	\$ 2,502,642	\$ 3,587,484	\$ -
<u>Other Investments:</u>				
Equity securities.....	2,099,285			
Total other investments.....	2,099,285			
Total investments.....	\$ 8,189,411			

Investments (Debt Securities) - Interest Rate Risk

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town's policy is to invest its available funds based on short and long-term liquidity needs at low to moderate risks.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town will review the firm's financial statements and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. As of June 30, 2017, none of the Town's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities.

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town will not invest in any instrument exposed to foreign currency risk. As of June 30, 2017, the Town was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of June 30, 2017, the Town did not have an investment with a single issuer that represented 5 percent or more of the Town's total investments.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2017, receivables for the individual major governmental funds and nonmajor governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 333,171	\$ -	\$ 333,171
Tax liens.....	414,828	-	414,828
Motor vehicle and other excise taxes.....	146,556	-	146,556
Community preservation surcharges.....	4,207	-	4,207
Special assessments.....	165,255	-	165,255
Departmental and other.....	23,013	-	23,013
Intergovernmental.....	1,625,683	-	1,625,683
	<u>\$ 2,717,604</u>	<u>\$ -</u>	<u>\$ 2,717,604</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 291,864	\$ -	\$ 291,864
Tax liens.....	393,777	13,678	407,455
Motor vehicle and other excise taxes.....	146,556	-	146,556
Community preservation surcharges.....	-	150,542 (a)	150,542
Special assessments.....	-	165,255	165,255
Departmental and other.....	23,013	-	23,013
Intergovernmental (state school construction).....	1,486,722	-	1,486,722
Tax foreclosures.....	105,477	-	105,477
Total.....	<u>\$ 2,452,300</u>	<u>\$ 329,475</u>	<u>\$ 2,781,775</u>

(a) Community Preservation Fund (Major Fund)

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2017, \$542,576 of such assistance was received. Approximately \$1,627,734 will be received in future fiscal years. Of this amount, approximately \$141,012 represents reimbursement of long-term interest costs, and approximately \$1,486,722 represents reimbursement of approved construction costs. Accordingly, a \$1,486,722 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 9,406,688	\$ -	\$ -	\$ 9,406,688
Intangible assets.....	121,000	23,250	-	144,250
Construction in progress.....	7,822,731	120,999	(7,620,438)	323,292
Total capital assets not being depreciated.....	17,350,419	144,249	(7,620,438)	9,874,230
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,213,806	14,655	-	1,228,461
Buildings and improvements.....	48,735,823	9,785,312	-	58,521,135
Machinery and equipment.....	1,871,379	11,250	-	1,882,629
Vehicles.....	1,992,837	309,436	(73,357)	2,228,916
Library books.....	238,247	3,671	(46,000)	195,918
Infrastructure.....	2,463,537	233,726	-	2,697,263
Total capital assets being depreciated.....	56,515,629	10,358,050	(119,357)	66,754,322
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(285,292)	(59,844)	-	(345,136)
Buildings and improvements.....	(12,780,949)	(1,272,487)	-	(14,053,436)
Machinery and equipment.....	(1,259,586)	(104,208)	-	(1,363,794)
Vehicles.....	(1,429,303)	(122,958)	73,357	(1,478,904)
Library books.....	(201,369)	(7,022)	46,000	(162,391)
Infrastructure.....	(258,211)	(66,083)	-	(324,294)
Total accumulated depreciation.....	(16,214,710)	(1,632,602)	119,357	(17,727,955)
Total capital assets being depreciated, net.....	40,300,919	8,725,448	-	49,026,367
Total governmental activities capital assets, net.....	\$ 57,651,338	\$ 8,869,697	\$ (7,620,438)	\$ 58,900,597

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 71,264
Public safety.....	256,691
Education.....	1,056,684
Public works.....	181,438
Culture and recreation.....	66,526
Total depreciation expense - governmental activities.....	\$ 1,632,603

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2017, are summarized as follows:

Transfers Out:	General Fund	Nonmajor Governmental Funds	Other Post-Employment Benefits	Total
General Fund.....	\$ -	\$ 64,939	\$ 50,000	\$ 114,939 (1)
Nonmajor Governmental Funds.....	64,964	2,388	-	67,352 (2)
	<u>\$ 64,964</u>	<u>\$ 67,327</u>	<u>\$ 50,000</u>	<u>\$ 182,291</u>

(1) Represents budgeted transfers to OPEB trust, conservation trust fund and receipts reserved for BAN premium.

(2) Represents budgeted transfers to the general fund from the wetlands protection fund to be expended by the Conservation Commission in performing its duties under the Wetlands Protection Act, from the MWPAT receipts reserved fund to paydown debt, and to the conservation fund from the conservation land maintenance fund to be expended by the Conservation Commission.

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the general fund.

Details related to the short-term debt activity for the fiscal year ended June 30, 2017, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2016	Increases	Decreases	Balance at 6/30/2017
BAN	School Building.....	11/12/15	11/10/16	0.69%	1,100,000	-	(1,100,000)	-
BAN	Fire Statio/Comm Center.....	5/2/16	5/1/17	2.00%	8,320,000	-	(8,320,000)	-
BAN	Land Acquisition.....	5/20/16	5/1/17	0.75%	275,000	-	(275,000)	-
BAN	Fire Statio/Comm Center	5/20/16	5/1/17	0.75%	381,000	-	(381,000)	-
BAN	School Building.....	11/10/16	5/1/17	0.95%	-	500,000	(500,000)	-
BAN	School Building.....	5/1/17	5/1/18	2.00%	-	495,000	-	495,000
BAN	Fire Statio/Comm Center.....	5/1/17	5/1/18	2.00%	-	8,951,000	-	8,951,000
BAN	Land Acquisition.....	5/1/17	5/1/18	2.00%	-	275,000	-	275,000
Total.....					<u>\$ 10,076,000</u>	<u>\$ 10,221,000</u>	<u>\$ (10,576,000)</u>	<u>\$ 9,721,000</u>

NOTE 8 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

During fiscal year 2006, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$2,065,000 of bonds outstanding from this advance refunding is considered defeased.

During fiscal year 2011, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$390,000 of bonds outstanding from this advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2017, and the debt service requirements are as follows:

Bonds Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
School project refunding debt....	3.5 - 4.75%	\$ 2,695,000	\$ -	\$ (635,000)	\$ 2,060,000
School project.....	2.0 - 4.125%	7,495,000	-	(380,000)	7,115,000
Land acquisition.....	2.0 - 4.0%	345,000	-	(25,000)	320,000
Outdoor recreational facility.....	2.0 - 4.0%	135,000	-	(15,000)	120,000
MWPAT.....	0.00%	448,005	-	(55,707)	392,298
2011 Refunding.....	2.0 - 3.0%	560,000	-	(185,000)	375,000
Elementary School Project.....	3.0 - 4.0%	6,130,000	-	(255,000)	5,875,000
Total governmental funds.....		<u>\$ 17,808,005</u>	<u>\$ -</u>	<u>\$ (1,550,707)</u>	<u>\$ 16,257,298</u>

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

2018.....	1,605,791	579,205	2,184,996
2019.....	1,645,874	528,056	2,173,930
2020.....	1,515,958	470,343	1,986,301
2021.....	831,042	411,537	1,242,579
2022.....	866,126	383,436	1,249,562
2023.....	891,211	352,313	1,243,524
2024.....	921,296	320,224	1,241,520
2025.....	875,000	286,307	1,161,307
2026.....	905,000	254,654	1,159,654
2027.....	935,000	221,907	1,156,907
2028.....	970,000	188,056	1,158,056
2029.....	970,000	152,906	1,122,906
2030.....	1,005,000	117,112	1,122,112
2031.....	1,045,000	80,044	1,125,044
2032.....	410,000	41,437	451,437
2033.....	425,000	28,112	453,112
2034.....	440,000	14,300	454,300
<hr/>			
Total..... \$	<u>16,257,298</u>	<u>\$ 4,429,949</u>	<u>\$ 20,687,247</u>

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Center School Construction.....	\$ 18,761,870
Lower Village Traffic Safety.....	492,000
Fire Station/Community Center.....	<u>430,000</u>
Total.....	<u>\$ 19,683,870</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 17,808,005	\$ -	\$ (1,550,707)	\$ 16,257,298	\$ 1,605,791
Net OPEB obligation.....	1,653,623	236,870	-	1,890,493	-
Compensated absences.....	150,345	-	(11,861)	138,484	13,848
Total.....	\$ 19,611,973	\$ 236,870	\$ (1,562,568)	\$ 18,286,275	\$ 1,619,639

Generally these liabilities are liquidated by the general fund.

NOTE 9 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based workers' compensation plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town participates in a health insurance risk pool administered by Group Benefits Strategies (Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Group its required premiums and, in the event the Group is terminated, its proportionate share of a deficit, should one exist.

NOTE 10 - PENSION PLAN

Plan Description – The Town contributes to the Middlesex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board. Substantially all employees of the Town are members of the System, except for former public school teachers and certain administrators, who are members of the Massachusetts Teachers Retirement System (MTRS), to which the Town does not contribute.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Middlesex Regional Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, Massachusetts 01865.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2017, 2016, and 2015 were \$748,612, \$702,159, and \$685,927, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 – MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the “Plan”) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 30% and 70%, respectively. The Plan members and Town each contribute 50% towards a \$5,000 term life insurance premium. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #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 actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town’s net OPEB obligation:

	<u>Amount</u>
Annual required contribution..... \$	710,498
Interest on net OPEB obligation.....	87,642
Adjustment to annual required contribution.....	<u>(76,221)</u>
Annual OPEB cost.....	721,919
Contributions made.....	<u>(485,049)</u>
Increase in net OPEB obligation.....	236,870
Net OPEB obligation at beginning of year.....	<u>1,653,623</u>
Net OPEB obligation at end of year..... \$	<u><u>1,890,493</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014.....\$	528,589	61%	\$ 1,120,505
June 30, 2015.....	677,452	60%	1,389,253
June 30, 2016.....	689,805	63%	1,653,623
June 30, 2017.....	689,805	70%	1,890,493

Funded Status and Funding Progress – The funded status of the Plan at June 30, 2015, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
6/30/2012 \$	-	\$ 6,057,836	\$ 6,057,836	0%	\$ 3,975,252	152%
6/30/2015	52,503	8,655,224	8,602,721	0.61%	4,505,143	191%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

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

Valuation date:	June 30, 2015
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	27 years at June 30, 2015
Interest discount rate:	5%
Healthcare/Medical cost trend rate:	7% and 8%
Projected salary increases:	2% annually

NOTE 13 – FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Elementary School Construction</u>	<u>Community Center/ Fire Station</u>	<u>Library Trust Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:							
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 382,357	\$ 382,357
Restricted:							
General government.....	-	-	-	-	-	675,432	675,432
Public safety.....	-	-	-	-	-	95,654	95,654
Education.....	-	-	-	-	-	551,335	551,335
Public works.....	-	-	-	-	-	91,050	91,050
Health and human services.....	-	-	-	-	-	236,819	236,819
Culture and recreation.....	-	-	-	-	674,993	97,699	772,692
Community Preservation.....	-	7,478,936	-	-	-	-	7,478,936
Affordable housing.....	-	-	-	-	-	173,222	173,222
Debt service.....	199,361	-	-	-	-	-	199,361
Capital.....	-	-	-	-	-	21,277	21,277
Sub-total - Restricted.....	199,361	7,478,936	-	-	674,993	1,942,488	10,295,778
Committed:							
Subsequent year's expenditures.....	523,000	-	-	-	-	-	523,000
Continuing appropriations.....	747,622	-	-	-	-	-	747,622
Sub-total - Committed.....	1,270,622	-	-	-	-	-	1,270,622
Assigned:							
Encumbrances.....	8,424	-	-	-	-	-	8,424
Unassigned.....	<u>4,009,645</u>	<u>-</u>	<u>(465,564)</u>	<u>(8,941,674)</u>	<u>-</u>	<u>(280,928)</u>	<u>(5,678,521)</u>
Total fund balance.....	\$ <u>5,488,052</u>	\$ <u>7,478,936</u>	\$ <u>(465,564)</u>	\$ <u>(8,941,674)</u>	\$ <u>674,993</u>	\$ <u>2,043,917</u>	\$ <u>6,278,660</u>

NOTE 14 – STABILIZATION FUNDS

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town Meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2017 totals \$961,378.

NOTE 15 – COMMITMENTS

In conjunction with the fire station/community center project the Town has entered into a contract with Kang Associates totaling \$534,400 for the design and Pezzuco Construction totaling \$7,085,000 for the construction.

NOTE 16 - CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2017.

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 17 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. The objective of the statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this statement are effective for fiscal year 2017. The adoption of GASB No. 74 did have a material effect on the Town.
- Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans. The statement established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this statement are effective for financial reporting periods after June 15, 2017 (fiscal year 2018). The Town is currently evaluation whether adoption will have a material impact on the financial statements.
- Statement #77, Tax Abatement Disclosures. The statement requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals and entities. The provision of this Statement are effective for fiscal year 2017. The adoption of GASB No. 77 did have a material effect on the financial statements.
- Statement # 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This statement is applicable to certain government pension plans that (i) are not administered as a trust by a state or local government pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominate state of local governmental employer. The provisions of this Statement are effective for fiscal year 2017. The adoption of GASB No. 78 did not have a material effect on the Town's financial statements.
- Statement #80, Blending Requirements for Certain Component Units. The provisions of this Statement apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for fiscal year 2017. The adoption of GASB No. 80 did not have a material impact on the financial statements.
- Statement #81, Irrevocable Split-Interest Agreements. The objective of this Statement is 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 are effective for financial reporting periods beginning after December 15,

2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluation whether adoption will have a material impact on the financial statements.

- Statement #82, Pension Issues- an amendment of GASB Statements No. 67, No 68, and No 73. The objective this Statement was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplemental information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The adoption of GASB No. 82 did not have a material impact on the financial statements.
- Statement #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.
- Statement #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.
- Statement #86, Certain Debt Extinguishment Issues. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.
- Statement #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.

Required Supplementary Information

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/16	\$ 1,141,122,663	\$ 2,492,161,766	\$ 1,351,039,103	45.8%	\$ 447,271,930	302.1%
01/01/14	967,146,018	2,195,732,452	1,228,586,434	44.0%	415,752,810	295.5%
01/01/12	862,323,395	1,974,144,909	1,111,821,514	43.7%	393,100,995	282.8%
01/01/10	819,987,914	1,743,581,707	923,593,793	47.0%	384,933,571	239.9%
01/01/08	774,863,669	1,529,806,307	754,942,638	50.7%	360,206,302	209.6%
01/01/06	653,156,866	1,364,582,969	711,426,103	47.9%	330,999,861	214.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2011	\$ 78,662,214	100%
2012	81,933,448	100%
2013	88,287,112	100%
2014	92,826,743	100%
2015	98,792,642	100%
2016	105,246,798	100%

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Town ARC as a Percentage of System ARC
2012	\$ 558,433	100%	0.71%
2013	584,911	100%	0.71%
2014	643,169	100%	0.73%
2015	685,927	100%	0.74%
2016	702,159	100%	0.71%
2017	748,612	100%	0.71%

NOTE A – PENSION PLAN

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2016
Actuarial cost method:	Entry age normal cost method
Amortization method:	Prior year's total contributions increased by 6.5% for fiscal 2016 through fiscal 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI liability amortized in level payments.
Remaining amortization period:	As of July 1, 2016, 3 years remaining for 2002 ERI liability, 4 years remaining for 2003 ERI liability and 19 years for remaining unfunded liability.
Asset valuation method:	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
<u>Actuarial assumptions:</u>	
Investment rate of return:	7.875%
Projected salary increases:	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.5% for Group 2, and 4.75% for Group 4 (previously 4.75% for Group 1 and 5.25% for Group 4)
Cost of living adjustments:	3.00% of first \$14,000 of retirement income