

**TOWN OF STOW, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2018**

**Town of Stow, Massachusetts**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	10
Statement of Activities	11
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
<b>Notes to Financial Statements</b>	19

**REQUIRED SUPPLEMENTARY INFORMATION:****Page****Pension:**

Schedule of Proportionate Share of the Net Pension Liability (GASB 68) 46

Schedule of Pension Contributions (GASB 68) 47

**OPEB:**

Schedule of Changes in Net OPEB Liability (GASB 74 and 75) 48

Schedules of Net OPEB Liability, Contributions, and  
Investment Returns (GASB 74 and 75) 49

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Stow, Massachusetts

**Additional Offices:**

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### **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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 46 to 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Melanson Heath*

June 25, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation.

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

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

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows by \$32,577,720 (i.e., net position), a change of \$9,248 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,036,178, a change of \$(2,242,482) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,938,777, a change of \$(70,868) in comparison to the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

#### NET POSITION

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current assets	\$ 17,022	\$ 10,397
Capital assets	<u>61,429</u>	<u>67,626</u>
Total assets	78,451	78,023
Deferred outflows of resources	1,249	1,345
Current liabilities	12,774	11,792
Noncurrent liabilities	<u>33,928</u>	<u>27,160</u>
Total liabilities	46,702	38,952
Deferred inflows of resources	421	39
Net position:		
Net investment in capital assets	36,917	34,409
Restricted	2,546	10,137
Unrestricted	<u>(6,886)</u>	<u>(4,169)</u>
Total net position	<u>\$ 32,577</u>	<u>\$ 40,377</u>

As noted earlier, net position may serve over time as a useful indicator of a Town's financial position. At the close of the most recent fiscal year, total net position was \$32,577,720, a change of \$9,248 from the prior year.

The largest portion of net position \$36,917,224 reflects our investment in capital assets (e.g., land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, intangible assets, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$2,546,147 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(6,885,651) resulting from the Town's unfunded Net OPEB and Net Pension liabilities (see Notes 17 and 18).



# CHANGES IN NET POSITION

	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,037	\$ 823
Operating grants and contributions	987	835
Capital grants and contributions	516	163
General revenues:		
Property taxes	26,429	25,643
Excises	1,120	1,136
Penalties, interest, and other taxes	133	71
Grants and contributions not restricted to specific programs	533	464
Investment income	80	15
Other	<u>110</u>	<u>82</u>
Total revenues	30,945	29,232
Expenses:		
General government	3,303	4,626
Public safety	4,182	1,676
Education	18,968	18,230
Public works	2,155	1,785
Human services	694	800
Culture and recreation	827	753
Interest on long-term debt	702	795
Intergovernmental	<u>105</u>	<u>-</u>
Total expenses	<u>30,936</u>	<u>28,665</u>
Change in net position	9	567
* Net position - beginning of year, as restated	<u>32,568</u>	<u>39,810</u>
Net position - end of year	<u>\$ 32,577</u>	<u>\$ 40,377</u>

\* Fiscal year 2017 amounts were not restated as the Town applied GASB 75 prospectively.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$9,248. Key elements of this change are as follows:

General fund operations (modified accrual basis)	\$ 374,699
Major community preservation fund revenues used for capital assets	707,063
Principal debt service in excess of depreciation expense	(196,823)
Change in long-term liabilities	(596,985)
Other	<u>(278,706)</u>
Total	<u>\$ 9,248</u>

#### **D. FINANCIAL ANALYSIS OF FUNDS**

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,036,178, a change of \$(2,242,482) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 374,699
Major community preservation fund operating results	(1,711,776)
Major fire station fund operating results	1,674
Nonmajor funds operating results	<u>(907,079)</u>
Total	\$ <u><u>(2,242,482)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,938,777, while total fund balance was \$5,862,753. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 3,938,777	\$ 4,009,645	\$ (70,868)	13.5%
Total fund balance	\$ 5,862,753	\$ 5,488,054	\$ 374,699	20.1%

The total fund balance of the general fund changed by \$374,699 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (596,254)
Revenues in excess of budget	499,855
Expenditures less than budget	338,623
Change in encumbrances	(158,598)
Change in stabilization	1,155
Other	<u>289,918</u>
Total	\$ <u><u>374,699</u></u>

Included in the total general fund balance is the Town's stabilization fund with the following balance:

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
General stabilization	\$ 962,534	\$ 961,379	\$ 1,155

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$73,254. Major reasons for these amendments include:

- \$15,000 appropriated for Private Ways funded by free cash.
- \$8,254 appropriated for Assabet Regional Technical School Assessment funded by free cash.
- \$50,000 appropriated for Snow and Ice Deficit funded by free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$61,429,222 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, intangible assets, and infrastructure.

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

- \$439,836 for land including the Kunelius Property.
- \$2,098,248 for intangible assets including the conservation of various Town properties.
- \$614,388 for construction in progress, the majority of which was for the Lower Village project.
- \$448,717 for various machinery, equipment, and vehicles, including a new ambulance
- \$377,073 for various road improvements.
- \$435,005 for various building improvements including the Police Station HVAC system.
- \$4,049 for library books.
- Depreciation expense of \$(1,802,614).

Additional information on capital assets can be found in the Notes to Financial Statements.

**Credit rating.** As of June 30, 2018, the Town's Standard & Poor's credit rating is AAA.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$14,651,507, all of which was backed by the full faith and credit of the Town.

Additional information on long-term debt can be found in the Notes to Financial Statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Stow, Massachusetts  
Town Accountant  
380 Great Road  
Stow, Massachusetts 01775

TOWN OF STOW, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 7,499,748
Investments	7,498,413
Receivables, net of allowance for uncollectibles:	
Property taxes	498,789
Excises	60,494
User fees	31,093
Intergovernmental	13,210
Betterments	44,759
Due from other governments	542,576
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	218,120
Betterments	72,672
Due from other governments	542,582
Capital assets:	
Land and construction in progress	12,940,626
Other capital assets, net of accumulated depreciation	48,488,596
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	1,249,138
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	79,700,816
<b>LIABILITIES</b>	
Current:	
Warrants payable	479,477
Accrued liabilities	319,929
Notes payable	10,197,000
Other current liabilities	126,358
Current portion of long-term liabilities:	
Bonds payable	1,645,874
Compensated absences	5,579
Noncurrent:	
Bonds payable, net of current portion	13,005,633
Net pension liability	10,459,477
Net OPEB liability	10,356,994
Compensated absences	105,994
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	420,781
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	47,123,096
<b>NET POSITION</b>	
Net investment in capital assets	36,917,224
Restricted for:	
Grants and other statutory restrictions	1,244,810
Permanent funds:	
Nonexpendable	388,357
Expendable	912,980
Unrestricted	(6,885,651)
<b>TOTAL NET POSITION</b>	<u><u>\$ 32,577,720</u></u>

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

TOWN OF STOW, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	Expenses				
<b>Governmental Activities:</b>					
General government	\$ 3,303,351	\$ 137,117	\$ 795,491	\$ -	\$ (2,370,743)
Public safety	4,181,689	575,781	35,027	-	(3,570,881)
Education	18,967,824	-	4,733	141,012	(18,822,079)
Public works	2,155,282	16,736	6,000	374,536	(1,758,010)
Health and human services	694,393	52,751	105,810	-	(535,832)
Culture and recreation	827,382	254,810	39,953	-	(532,619)
Interest	701,685	-	-	-	(701,685)
Intergovernmental	105,479	-	-	-	(105,479)
Total Governmental Activities	<u>\$ 30,937,085</u>	<u>\$ 1,037,195</u>	<u>\$ 987,014</u>	<u>\$ 515,548</u>	<u>(28,397,328)</u>
<b>General Revenues:</b>					
					26,429,271
Property taxes					
Excises					1,119,662
Penalties, interest and other taxes					132,666
Grants and contributions not restricted to specific programs					533,604
Investment income					79,919
Miscellaneous					111,454
Total general revenues					<u>28,406,576</u>
Change in Net Position					9,248
<b>Net Position:</b>					
Beginning of year, as restated					<u>32,568,472</u>
End of year					<u>\$ 32,577,720</u>

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

## TOWN OF STOW, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2018

	General Fund	Community Preservation Fund	Community Center/Fire Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and short-term investments	\$ 5,322,849	\$ 1,108,539	\$ 5,982	\$ 1,062,378	\$ 7,499,748
Investments	911,405	4,658,840	-	1,928,168	7,498,413
Receivables:					
Property taxes	894,929	11,913	-	-	906,842
Excises	109,660	-	-	-	109,660
Betterments	-	-	-	117,431	117,431
User fees	41,458	-	-	-	41,458
Intergovernmental	1,085,158	-	-	13,210	1,098,368
<b>TOTAL ASSETS</b>	<b>\$ 8,365,459</b>	<b>\$ 5,779,292</b>	<b>\$ 5,982</b>	<b>\$ 3,121,187</b>	<b>\$ 17,271,920</b>
<b>LIABILITIES</b>					
Warrants payable	\$ 143,383	\$ 142	\$ 5,982	\$ 329,970	\$ 479,477
Accrued liabilities	236,430	78	-	13,151	249,659
Notes payable	-	-	8,940,000	1,257,000	10,197,000
Other liabilities	82,199	-	-	44,159	126,358
<b>TOTAL LIABILITIES</b>	<b>462,012</b>	<b>220</b>	<b>8,945,982</b>	<b>1,644,280</b>	<b>11,052,494</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues	2,040,694	11,913	-	130,641	2,183,248
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	382,357	382,357
Restricted	178,774	5,767,159	-	2,894,535	8,840,468
Committed	561,144	-	-	-	561,144
Assigned	1,184,058	-	-	-	1,184,058
Unassigned	3,938,777	-	(8,940,000)	(1,930,626)	(6,931,849)
<b>TOTAL FUND BALANCES</b>	<b>5,862,753</b>	<b>5,767,159</b>	<b>(8,940,000)</b>	<b>1,346,266</b>	<b>4,036,178</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,365,459</b>	<b>\$ 5,779,292</b>	<b>\$ 5,982</b>	<b>\$ 3,121,187</b>	<b>\$ 17,271,920</b>

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

TOWN OF STOW, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2018

<b>Total governmental fund balances</b>	\$ 4,036,178
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,429,222
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,933,784
• Long-term liabilities, including bonds payable, net pension liability, net OPEB liability, and accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(35,579,551)
• Other	<u>758,087</u>
<b>Net position of governmental activities</b>	<u><u>\$ 32,577,720</u></u>

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



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

	General Fund	Community Preservation Fund	Community Center/Fire Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 26,142,980	\$ 598,804	\$ -	\$ -	\$ 26,741,784
Excises	1,205,725	-	-	-	1,205,725
Penalties, interest and other taxes	109,277	2,015	-	-	111,292
Charges for services	329,270	-	-	295,108	624,378
Intergovernmental	1,135,188	138,961	-	644,290	1,918,439
Licenses and permits	345,714	-	-	-	345,714
Fines and forfeitures	9,636	-	-	-	9,636
Investment income	27,887	(32,717)	-	84,749	79,919
Miscellaneous	20,175	-	-	645,982	666,157
Total Revenues	29,325,852	707,063	-	1,670,129	31,703,044
<b>Expenditures:</b>					
Current:					
General government	1,718,093	2,418,839	9,326	1,501,488	5,647,746
Public safety	2,804,969	-	-	74,825	2,879,794
Education	17,863,801	-	-	46,565	17,910,366
Public works	1,414,156	-	-	517,845	1,932,001
Health and human services	427,686	-	-	48,087	475,773
Culture and recreation	425,257	-	-	291,754	717,011
Employee benefits	2,015,415	-	-	-	2,015,415
Debt service	2,347,238	-	-	-	2,347,238
Intergovernmental	105,479	-	-	-	105,479
Total Expenditures	29,122,094	2,418,839	9,326	2,480,564	34,030,823
Excess (deficiency) of revenues over expenditures	203,758	(1,711,776)	(9,326)	(810,435)	(2,327,779)
<b>Other Financing Sources (Uses):</b>					
Bond premiums	-	-	-	85,297	85,297
Transfers in	277,111	-	11,000	95,170	383,281
Transfers out	(106,170)	-	-	(277,111)	(383,281)
Total Other Financing Sources (Uses)	170,941	-	11,000	(96,644)	85,297
Change in fund balance	374,699	(1,711,776)	1,674	(907,079)	(2,242,482)
Fund Balance, at Beginning of Year, as reclassified	5,488,054	7,478,935	(8,941,674)	2,253,345	6,278,660
Fund Balance, at End of Year	\$ 5,862,753	\$ 5,767,159	\$ (8,940,000)	\$ 1,346,266	\$ 4,036,178

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

TOWN OF STOW, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2018

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ (2,242,482)</b>														
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay</td><td style="text-align: right;">4,331,239</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(1,802,614)</td></tr> </table> </li> <li>The issuance of long-term debt (e.g., bonds) 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 effect on net position: <table> <tr> <td>Repayments of debt</td><td style="text-align: right;">1,605,791</td></tr> <tr> <td>Other</td><td style="text-align: right;">26,911</td></tr> </table> </li> <li>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. <div style="text-align: right;">(598,526)</div> </li> <li>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Net pension liability and related deferred outflows and inflows of resources</td><td style="text-align: right;">(443,292)</td></tr> <tr> <td>Net OPEB liability</td><td style="text-align: right;">(658,077)</td></tr> <tr> <td>Other</td><td style="text-align: right;">39,762</td></tr> </table> </li> <li>Other differences. <div style="text-align: right;"><u>(249,464)</u></div> </li> </ul>	Capital outlay	4,331,239	Depreciation	(1,802,614)	Repayments of debt	1,605,791	Other	26,911	Net pension liability and related deferred outflows and inflows of resources	(443,292)	Net OPEB liability	(658,077)	Other	39,762	
Capital outlay	4,331,239														
Depreciation	(1,802,614)														
Repayments of debt	1,605,791														
Other	26,911														
Net pension liability and related deferred outflows and inflows of resources	(443,292)														
Net OPEB liability	(658,077)														
Other	39,762														
<b>Change in net position of governmental activities</b>	<b>\$ <u>9,248</u></b>														

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

TOWN OF STOW, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 25,973,819	\$ 25,973,819	\$ 25,973,819	\$ -
Motor vehicle excise	1,075,000	1,075,000	1,205,725	130,725
Penalties, interest and other taxes	93,000	93,000	109,277	16,277
Charges for services	289,300	289,300	329,271	39,971
Intergovernmental	1,031,062	1,031,062	1,135,188	104,126
Licenses and permits	175,000	175,000	345,714	170,714
Fines and forfeitures	6,500	6,500	9,636	3,136
Investment income	12,000	12,000	26,731	14,731
Miscellaneous	-	-	20,175	20,175
Transfers in	277,111	277,111	277,111	-
Use of free cash	430,000	503,254	503,254	-
Overlay surplus	93,000	93,000	93,000	-
Total Revenues and Other Sources	29,455,792	29,529,046	30,028,901	499,855
<b>Expenditures and Other Uses:</b>				
General government	2,059,199	2,020,854	1,955,561	65,293
Public safety	2,746,157	2,746,157	2,594,662	151,495
Education	17,867,837	17,876,091	17,876,091	-
Public works	1,303,539	1,438,627	1,380,033	58,594
Health and human services	433,714	438,059	429,025	9,034
Culture and recreation	374,054	374,054	354,013	20,041
Employee benefits	2,013,746	1,977,658	1,951,564	26,094
Debt service	2,408,269	2,387,269	2,379,197	8,072
Intergovernmental	105,479	105,479	105,479	-
Transfers out	55,000	76,000	76,000	-
Other uses	88,798	88,798	88,798	-
Total Expenditures and Other Uses	29,455,792	29,529,046	29,190,423	338,623
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ 838,478	\$ 838,478

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

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

	OPEB <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 929	\$ 1,897	\$ 70,497
Investments:			
Equities	137,967	-	-
Mutual funds	83,865	-	-
Pooled investments	-	33,818	-
Accountants receivable	<u>-</u>	<u>-</u>	<u>46,471</u>
Total Assets	222,761	35,715	116,968
 <b>LIABILITIES</b>			
Deposits held in escrow	-	-	107,485
Other liabilities	<u>-</u>	<u>-</u>	<u>9,483</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>116,968</u>
 <b>NET POSITION</b>			
Restricted for OPEB purposes	222,761	-	-
Restricted for other purposes	<u>-</u>	<u>35,715</u>	<u>-</u>
Total Net Position	<u>\$ 222,761</u>	<u>\$ 35,715</u>	<u>\$ -</u>

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

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

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Contributions:		
Employers	\$ <u>290,000</u>	\$ <u>-</u>
Total contributions	290,000	-
Investment Income:		
Interest	8,425	7
Increase (decrease) in fair value of investments	<u>(414)</u>	<u>-</u>
Net investment income	<u>8,011</u>	<u>7</u>
Total additions	298,011	7
<b>Deductions</b>		
Benefit payments to plan members, beneficiaries and other systems	240,000	-
Other	<u>-</u>	<u>472</u>
Total deductions	<u>240,000</u>	<u>472</u>
Net increase (decrease)	58,011	(465)
<b>Net position restricted for other purposes</b>		
Beginning of year	<u>164,750</u>	<u>36,180</u>
End of year	\$ <u><u>222,761</u></u>	\$ <u><u>35,715</u></u>

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

# TOWN OF STOW, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable. In fiscal year 2018, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

#### 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 10-member school committee consisting of two elected representatives 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, 2018, the Town's assessment totaled \$17,188,374. Separate financial statements may be obtained by writing to the Treasurer of the NRSD at 50 Mechanic Street, Bolton, Massachusetts 01740.

#### *Minuteman Regional High School (MRHS)*

The MRHS is governed by a 17-member school committee consisting of 1 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, 2018, the Town's assessment totaled \$630,999. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, Massachusetts 02421-7313.

**B. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

**Fund Financial Statements**

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

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

**Government-Wide Financial Statements**

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

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special

assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* is used to account for revenues and expenditures related to the levy of a three percent property tax surcharge that is authorized by the Community Preservation Act. This fund was established by the Town for the purpose of acquiring open land for conservation, developing affordable housing, and preserving historical property.
- The *Community Center/Fire Station Fund* is a capital project fund used to account for the accumulation of resources to remodel the Pompositticut School into a community center and fire station.

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

The Town reports the following fiduciary funds:

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- 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 benefit individuals, private organizations, or other governments.



- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

#### E. Investments

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

Investments for the General Fund, Community Preservation Fund and Town Trust Funds consist of bank certificates of deposit, mutual funds, corporate bonds, corporate equities, and U.S. Treasury/Agency securities. All investments are carried at fair value except certificates of deposit which are reported at cost.

#### F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth) unless an override or debt exemption is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$1,004,953.

#### G. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure, and intangible assets, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost that exceeds \$5,000, depending on the asset's category, and an esti-

mated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 30
Buildings and improvements	7 - 40
Machinery and equipment	5 - 10
Vehicles	5 - 15
Library books	10
Infrastructure	40

#### *H. Compensated Absences*

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

#### *I. Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

#### *J. Fund Equity*

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

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

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

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

K. Use of Estimates

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

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

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

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

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

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 29,325,852	\$ 29,122,094
Other financing sources/uses (GAAP basis)	<u>277,111</u>	<u>106,170</u>
Subtotal (GAAP Basis)	29,602,963	29,228,264
Remove effect of combining stabilization and general fund	(1,155)	-
Adjust tax revenue to accrual basis	(169,161)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(755,915)
Add end-of-year appropriation carryforwards to expenditures	-	597,317
To record use of free cash	503,254	-
To record use of overlay surplus	93,000	-
Record raising of prior year's snow and ice deficit	-	88,798
Reverse the effects of non-budgeted audit adjustments	<u>-</u>	<u>31,959</u>
Budgetary basis	<u>\$ 30,028,901</u>	<u>\$ 29,190,423</u>

#### D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and grant revenues.

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2018, \$1,423,514 of the Town's bank balance of \$7,641,853 was exposed to custodial credit risk as uninsured or uncollateralized.

### **4. Investments**

#### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
			<u>Aaa</u>	<u>A2</u>	<u>Baa2</u>	<u>Not Rated</u>
Certificates of deposit	\$ 2,521	\$ 2,521	\$ -	\$ -	\$ -	\$ -
Federal agency securities	1,487	-	916	-	-	571
Corporate bonds	1,356	-	-	82	287	987
Corporate equities	1,577	1,577	-	-	-	-
Mutual funds	813	813	-	-	-	-
Total investments	<u>\$ 7,754</u>	<u>\$ 4,911</u>	<u>\$ 916</u>	<u>\$ 82</u>	<u>\$ 287</u>	<u>\$ 1,558</u>

**B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's policy on custodial credit risk involves reviewing the financial institution's financial statements and the background of the Advisor. 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, 2018, none of the Town's investments were subject to custodial credit risk.

**C. Concentration of Credit Risk**

The Town's policy is to minimize the 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.

The Town does not have an investment in one issuer greater than 5% of total investments.

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's policy on interest rate risk is managing the duration in the account.

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

<u>Investment Type</u>	<u>Amount</u>	Investment Maturities (in Years)			
		Less <u>Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>N/A</u>
Certificates of deposit	\$ 2,521	\$ 746	\$ 1,775	\$ -	\$ -
Federal agency securities	1,487	472	1,015	-	-
Corporate bonds	1,356	280	969	107	-
Corporate equities	1,577	-	-	-	1,577
Mutual funds	813	-	-	-	813
Total	<u>\$ 7,754</u>	<u>\$ 1,498</u>	<u>\$ 3,759</u>	<u>\$ 107</u>	<u>\$ 2,390</u>

#### E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy for foreign currency risk is to limit investments in any instrument exposed to foreign currency risk.

#### F. Fair Value

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

The Town has the following fair value measurements as of June 30, 2018 (in thousands):

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Description</u>				
Investments by fair value level:				
Debt securities:				
Federal agencies	\$ 1,487	\$ -	\$ 1,487	\$ -
Corporate bonds	1,356	\$ -	\$ 1,356	\$ -
Equity securities:				
Corporate securities	1,577	\$ 1,577	\$ -	\$ -
Mutual funds	813	\$ 813	\$ -	\$ -
Total	\$ 5,233			

### **5. Property Taxes and Excises Receivables**

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

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

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

Property tax and excise receivables at June 30, 2018 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
<u>Receivables:</u>			
Real estate taxes	\$ 370,306	\$ (70,047)	\$ 300,259
Personal property taxes	138,249	(118,718)	19,531
Community preservation act	6,885	(1,168)	5,717
Tax liens	275,142	-	275,142
Tax deferrals	10,782	-	10,782
Other	105,478	-	105,478
Total property taxes	<u>\$ 906,842</u>	<u>\$ (189,933)</u>	716,909
Less current portion:			498,789
Noncurrent taxes receivable			<u>\$ 218,120</u>
Motor vehicle excise	<u>\$ 109,660</u>	<u>\$ (49,166)</u>	<u>\$ 60,494</u>
Total excises	<u>\$ 109,660</u>	<u>\$ (49,166)</u>	<u>\$ 60,494</u>

## 6. User Fee and Betterment Receivables

Receivables for user charges and betterments at June 30, 2018 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
<u>Receivables:</u>			
Well betterment	\$ 117,431	\$ -	\$ 117,431
Ambulance	<u>41,458</u>	<u>(10,365)</u>	<u>31,093</u>
Total	<u>\$ 158,889</u>	<u>\$ (10,365)</u>	<u>\$ 148,524</u>

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

## 8. Interfund Fund Accounts

### Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish



various expenditure purposes. The following is an analysis of major interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 277,111	\$ 106,170
Nonmajor Funds:		
Special Revenue Funds:	80,170	277,111
Capital Project Funds:	10,000	-
Expendable Trust Funds	5,000	-
Subtotal Nonmajor Funds	95,170	277,111
Major Funds:		
Capital Project Funds:	11,000	-
Subtotal Major Funds	11,000	-
Total Governmental Funds	383,281	383,281
Grand Total	\$ 383,281	\$ 383,281

## 9. **Capital Assets**

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 1,228	\$ -	\$ -	\$ 1,228
Buildings and building improvements	58,521	435	-	58,956
Machinery, equipment, and furnishings	1,883	15	-	1,898
Vehicles	2,229	434	(103)	2,560
Library books	196	4	-	200
Infrastructure	2,697	377	-	3,074
Total capital assets, being depreciated	66,754	1,265	(103)	67,916
Less accumulated depreciation for:				
Land improvements	(345)	(60)	-	(405)
Buildings and building improvements	(14,053)	(1,403)	-	(15,456)
Machinery, equipment, and furnishings	(1,364)	(88)	-	(1,452)
Vehicles	(1,479)	(171)	103	(1,547)
Library books	(162)	(7)	-	(169)
Infrastructure	(324)	(74)	-	(398)
Total accumulated depreciation	(17,727)	(1,803)	103	(19,427)
Total capital assets, being depreciated, net	49,027	(538)	-	48,489
Capital assets, not being depreciated:				
Land	9,407	440	-	9,847
Intangible assets	144	2,098	-	2,242
Construction in progress	323	614	(86)	851
Total capital assets, not being depreciated	9,874	3,152	(86)	12,940
Governmental activities capital assets, net	\$ 58,901	\$ 2,614	\$ (86)	\$ 61,429

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 73
Public safety	403
Education	1,057
Public works	198
Culture and recreation	<u>72</u>
Total depreciation expense - governmental activities	\$ <u><u>1,803</u></u>

#### 10. **Deferred Outflows of Resources**

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

#### 11. **Warrants Payable**

Warrants payable represent 2018 expenditures paid by July 15, 2018.

#### 12. **Notes Payable**

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/18</u>
School Building	3.00%	5/1/2018	5/1/2019	\$ 500,000
Fire Station/Community Center	3.00%	5/1/2018	5/1/2019	8,940,000
Land Acquisition	3.00%	5/1/2018	5/1/2019	265,000
Lower Village	1.35%	12/19/17	07/10/18	<u>492,000</u>
Total				\$ <u><u>10,197,000</u></u>

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

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Rollover</u>	<u>Retired</u>	<u>Balance End of Year</u>
School Building	\$ 500,000	\$ -	\$ (500,000)	\$ -	\$ -
School Building	-	-	500,000	-	500,000
Fire Station/Community Center	8,951,000	-	(8,940,000)	(11,000)	-
Fire Station/Community Center	-	-	8,940,000	-	8,940,000
Land Acquisition	270,000	-	(265,000)	(5,000)	-
Land Acquisition	-	-	265,000	-	265,000
Lower Village	-	492,000	-	-	492,000
Total	<u>\$ 9,721,000</u>	<u>\$ 492,000</u>	<u>\$ -</u>	<u>\$ (16,000)</u>	<u>\$ 10,197,000</u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
School Project Refunding	02/01/20	3.50 - 4.75	\$ 1,400,000
School Project	05/01/31	2.00 - 4.12	6,720,000
Land Acquisition	05/01/28	2.00 - 4.00	295,000
Outdoor Recreational Facility	05/01/24	2.00 - 4.00	105,000
MWPAT	01/15/25	0.00	336,507
2011 Refunding	02/01/19	2.00 - 2.50	185,000
Elementary School Project	05/15/34	3.00 - 4.00	5,610,000
Total Governmental Activities			<u>\$ 14,651,507</u>

**B. Future Debt Service**

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,645,874	\$ 526,156	\$ 2,172,030
2020	1,515,958	468,031	1,983,989
2021	831,042	411,538	1,242,580
2022	866,126	383,438	1,249,564
2023	891,211	352,313	1,243,524
2024 - 2028	4,606,296	1,271,150	5,877,446
2029 - 2033	3,855,000	419,613	4,274,613
Thereafter	440,000	14,300	454,300
Total	<u>\$ 14,651,507</u>	<u>\$ 3,846,539</u>	<u>\$ 18,498,046</u>

**C. Changes in General Long-Term Liabilities**

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

	Total Balance <u>7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/18</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/18</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 16,257	\$ -	\$ (1,605)	\$ 14,652	\$ (1,646)	\$ 13,006
Net pension liability	10,493	-	(34)	10,459	-	10,459
Net OPEB liability	9,699	658	-	10,357	-	10,357
Other:						
Compensated absences	138	-	(27)	111	(5)	106
Subtotal - other	138	-	(27)	111	(5)	106
Totals	<u>\$ 36,587</u>	<u>\$ 658</u>	<u>\$ (1,666)</u>	<u>\$ 35,579</u>	<u>\$ (1,651)</u>	<u>\$ 33,928</u>

**D. 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, 2018, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Center School Construction	\$ 18,756,870
Fire Station/Community Center	<u>430,000</u>
Total	<u>\$ 19,186,870</u>

#### **14. Deferred Inflows of Resources**

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

#### **15. Governmental Funds - Balances**

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

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting and capital project and expendable trust funds funded by general fund appropriations.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes

general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned – Represents amounts that are available to spend in future periods and general stabilization fund and deficit funds.

Following is a breakdown of the Town's fund balance as of June 30, 2018:

	General Fund	Community Preservation Fund	Community Center/Fire Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 382,357	\$ 382,357
Total Nonspendable	-	-	-	382,357	382,357
Restricted					
Community preservation funds	-	5,767,159	-	-	5,767,159
Special revenue funds	-	-	-	1,244,809	1,244,809
Capital project funds	-	-	-	10,821	10,821
Expendable Trust Funds	-	-	-	1,632,905	1,632,905
Reserved for excluded debt	178,774	-	-	-	178,774
Expendable permanent funds	-	-	-	6,000	6,000
Total Restricted	178,774	5,767,159	-	2,894,535	8,840,468
Committed					
Article carryforwards	561,144	-	-	-	561,144
Total Committed	561,144	-	-	-	561,144
Assigned					
Encumbrances	36,173	-	-	-	36,173
Reserved for expenditures	1,147,885	-	-	-	1,147,885
Total Assigned	1,184,058	-	-	-	1,184,058
Unassigned					
General fund	2,976,243	-	-	-	2,976,243
Stabilization fund	962,534	-	-	-	962,534
Special revenue fund deficits	-	-	-	(895,726)	(895,726)
Capital project fund deficits	-	-	(8,940,000)	(1,034,900)	(9,974,900)
Total Unassigned	3,938,777	-	(8,940,000)	(1,930,626)	(6,931,849)
Total Fund Balances	\$ 5,862,753	\$ 5,767,159	\$ (8,940,000)	\$ 1,346,266	\$ 4,036,178

## 16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow

and ice” appropriation. All such overexpenditures, however, must be funded in the subsequent year’s tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 3,938,777
Stabilization fund	<u>(962,534)</u>
Statutory (UMAS) Balance	<u>\$ 2,976,243</u>

## **17. Middlesex County Retirement System**

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

### **A. Plan Description**

Substantially all employees of the Town are members of the Middlesex County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System’s annual financial reports, which are publicly available at the System’s administrative offices at 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865. Reports are also available on the System’s website at [www.middlesexretirement.org](http://www.middlesexretirement.org).

### **Participant Retirement Benefits**

The System provides for retirement allowance benefits up to a maximum of 80% of a member’s highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years

of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

#### Participant Refunds

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

#### Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percent-



age is determined by their date of entry into the System. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

#### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2018 was \$826,612, which was equal to its annual required contribution.

#### B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the System, and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At June 30, 2018, the Town reported a liability of \$10,459,477 for its proportionate share of the System's total net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2017, the Town's proportion was 0.737006%.

For the year ended June 30, 2018, the Town recognized total pension expense of \$1,269,902. In addition, the Town reported deferred outflows of resources

and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,272	\$ 53,415
Changes of assumptions	999,801	-
Net difference between projected and actual earnings on pension plan investments	-	284,099
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>214,065</u>	<u>83,267</u>
Total	<u>\$ 1,249,138</u>	<u>\$ 420,781</u>

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

Year ended June 30:

2019	\$ 333,528
2020	326,052
2021	196,539
2022	<u>(27,762)</u>
Total	<u>\$ 828,357</u>

#### D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to a measurement date of December 31, 2017:

COLA	3% of the first \$14,000
Salary increases	Based on years of service, ranging from 4.00% for Group 1 and 4.25% for Group 2
Investment rate of return	7.50%

Mortality rates were based on the following:

Pre-Retirement: The RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017.

Healthy Retire: The RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017.

Disabled Retiree: The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge funds, GTAA, risk parity	13.00%	3.94%
Private equity	12.00%	10.28%
Total	<u>100.00%</u>	

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions at the current contribution rate and employer contributions at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Town's proportionate share of the net pension liability would be if it were

calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
\$ 12,837,261	\$ 10,459,477	\$ 8,454,688

**G. Pension Plan Fiduciary Net Position**

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

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

*GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2013, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

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

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

**A. General Information about the OPEB Plan**

**Plan Description**

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Fallon Health, Harvard Pilgrim Health Care, and Tufts Health Plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

### Benefits Provided

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

### Plan Membership

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

Inactive employees or beneficiaries currently receiving benefit payments	45
Active employees	<u>54</u>
Total	<u><u>99</u></u>

### *B. Investments*

The OPEB trust fund assets consist of equities, fixed income, real estate, and alternatives.

*Rate of return.* For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### *C. Actuarial Assumptions and Other Inputs*

The Town has elected to use the alternative measurement method instead of obtaining an actuarial valuation. GASB 75 allows employers with less than 100 total plan members to apply a simplified alternative measurement method instead of obtaining actuarial valuations. The alternative method includes the same broad measurement steps as an actuarial valuation; however, it permits simplification of certain assumptions to make the method useable by nonspecialist.

The net OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.00%
Investment rate of return	7.50%
Municipal bond rate	4.18%
Discount rate	4.18%
Retirees' share of benefit-related costs	30% for health and 50% for life insurance

Mortality rates were based on the RP2000 Mortality Table for males and females projected 18 years; this assumption does not include a margin for future improvements in longevity.

Because of the minimal plan investment balance, disclosures related to long-term expected rate of return were not applicable.

*D. Discount Rate*

The discount rate used to measure the net OPEB liability was 4.18%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, the municipal bond rate of 4.18% was used.

*E. Net OPEB Liability*

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

Total OPEB liability	\$ 10,579,755
Plan fiduciary net position	<u>222,761</u>
Net OPEB liability	<u>\$ 10,356,994</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.11%

*F. Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 9,698,917	\$ 164,750	\$ 9,534,167
Changes for the year:			
Service cost	226,491	-	226,491
Interest	330,583	-	330,583
Contributions - employer	-	290,000	(290,000)
Net investment income	-	8,011	(8,011)
Changes in assumptions or other inputs	563,764	-	563,764
Benefit payments	<u>(240,000)</u>	<u>(240,000)</u>	<u>-</u>
Net Changes	<u>880,838</u>	<u>58,011</u>	<u>822,827</u>
Balances, end of year	<u>\$ 10,579,755</u>	<u>\$ 222,761</u>	<u>\$ 10,356,994</u>

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

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

<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
\$ 11,494,143	\$ 10,356,994	\$ 9,396,374

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

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

<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Healthcare</u> <u>Cost Trend</u> <u>Rates</u>	<u>1%</u> <u>Increase</u>
\$ 9,347,834	\$ 10,356,994	\$ 11,556,267

**19. Subsequent Events**

**Debt**

Subsequent to June 30, 2018, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>
Bond anticipation note	\$ 492,000	1.89%	07/10/18	07/10/19

**20. Commitments and Contingencies**

**Outstanding Legal Issues** - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

**Grants** - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a

liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**21. Beginning Net Position Restatement and Beginning Fund Balance Reclassification**

The beginning (July 1, 2017) net position of the Town has been restated and fund balance reclassified as follows:

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	\$ 40,376,896
Implementation of GASB 75 OPEB	<u>(7,808,424)</u>
As restated	<u>\$ 32,568,472</u>

Fund Basis Financial Statements:

	Elementary School Construction Fund	Library Trust Fund	Nonmajor Governmental Funds	Total
As previously reported	\$ (465,564)	\$ 674,993	\$ 2,043,916	\$ 2,253,345
Reclassification of prior year major funds	<u>465,564</u>	<u>(674,993)</u>	<u>209,429</u>	<u>-</u>
As restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,253,345</u>	<u>\$ 2,253,345</u>



**TOWN OF STOW, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY (GASB 68)**  
**JUNE 30, 2018**  
**(Unaudited)**

Middlesex County Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	0.737006%	\$10,459,477	\$ 3,575,149	292.56%	49.27%
June 30, 2017	December 31, 2016	0.740619%	\$10,493,658	\$ 3,375,342	310.89%	45.49%
June 30, 2016	December 31, 2015	0.715818%	\$9,234,186	\$ 3,198,487	288.70%	46.13%
June 30, 2015	December 31, 2014	0.709159%	\$8,519,238	\$ 3,075,468	277.01%	47.65%

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

See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)**

**JUNE 30, 2018**  
**(Unaudited)**

Middlesex County Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 826,612	\$ 826,612	\$ -	\$ 3,575,149	23.12%
June 30, 2017	December 31, 2016	\$ 748,612	\$ 748,612	\$ -	\$ 3,375,342	22.18%
June 30, 2016	December 31, 2015	\$ 702,159	\$ 702,159	\$ -	\$ 3,198,487	21.95%
June 30, 2015	December 31, 2014	\$ 685,927	\$ 685,927	\$ -	\$ 3,075,468	22.30%

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See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Schedule of Changes in the Net OPEB Liability (GASB 74 and 75)**

(Unaudited)

	<u>2018</u>
<b>Total OPEB liability</b>	
Service cost	\$ 226,491
Interest on unfunded liability - time value of \$	330,583
Changes of assumptions	563,764
Benefit payments, including refunds of member contributions	<u>(240,000)</u>
Net change in total OPEB liability	880,838
Total OPEB liability - beginning	<u>9,698,917</u>
<b>Total OPEB liability - ending (a)</b>	10,579,755
 <b>Plan fiduciary net position</b>	
Contributions - employer	290,000
Net investment income	8,011
Benefit payments, including refunds of member contributions	<u>(240,000)</u>
Net change in plan fiduciary net position	58,011
Plan fiduciary net position - beginning	<u>164,750</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>222,761</u>
<b>Net OPEB liability (asset) - ending (a-b)</b>	<u><u>\$ 10,356,994</u></u>

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

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

See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74 and 75)**

(Unaudited)

**Schedule of Net OPEB Liability**

	<u>2018</u>
Total OPEB liability	\$ 10,579,755
Plan fiduciary net position	<u>222,761</u>
Net OPEB liability (asset)	<u>\$ 10,356,994</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.11%

**Schedule of Contributions**

	<u>2018</u>
Actuarially determined contribution	\$ 716,038
Contributions in relation to the actuarially determined contribution	<u>290,000</u>
Contribution deficiency (excess)	<u>\$ 426,038</u>

**Schedule of Investment Returns**

	<u>2018</u>
Annual money weighted rate of return, net of investment expense	Unavailable

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See Independent Auditors' Report.