

TOWN OF EASTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Easton, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 60 to 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

March 21, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town, we offer readers this narrative overview and analysis of the financial activities of the Town of Easton for the fiscal year ended June 30, 2018. Unless otherwise noted, the amounts reported this analysis are expressed in whole numbers.

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 are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

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 is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total liabilities and deferred inflows of resources for governmental activities exceeded assets and deferred outflows of resources by \$(48,752,736) (i.e., net position), a change of \$(2,734,403) in comparison to the prior year.
- As of the close of the current fiscal year, total assets and deferred outflows of resources for business-type activities exceeded liabilities and deferred inflows of resources by \$40,698,096 (i.e., net position), a change of \$1,867,951 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$19,319,759, a change of \$4,041,739 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,146,604, a change of \$241,757 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 (in thousands):

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 36,323	\$ 34,496	\$ 10,785	\$ 8,983	\$ 47,108	\$ 43,479
Capital assets	108,533	112,372	44,208	44,147	152,741	156,519
Total assets	144,856	146,868	54,993	53,130	199,849	199,998
Deferred outflows of resources	7,351	6,264	128	109	7,479	6,373
Long-term liabilities	189,217	118,541	7,919	7,115	197,136	125,656
Notes payable	2,538	4,831	6,308	6,070	8,846	10,901
Other liabilities	4,200	4,178	116	134	4,316	4,312
Total liabilities	195,955	127,550	14,343	13,319	210,298	140,869
Deferred inflows of resources	5,005	1,307	80	17	5,085	1,324
Net position:						
Net investment in capital assets	76,286	76,809	34,160	34,307	110,446	111,116
Restricted	10,977	9,790	-	-	10,977	9,790
Unrestricted	(136,016)	(62,324)	6,538	5,596	(129,478)	(56,728)
Total net position	\$ (48,753)	\$ 24,275	\$ 40,698	\$ 39,903	\$ (8,055)	\$ 64,178

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(8,054,640), a change of \$(866,452) from the prior year.

The largest portion of net position \$110,446,105 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); 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, \$10,976,852, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(129,477,597) primarily resulting from the Town's unfunded net pension liability and net OPEB liability.

	<u>CHANGES IN NET POSITION</u>					
	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,785	\$ 4,334	\$ 5,450	\$ 4,821	\$ 9,235	\$ 9,155
Operating grants and contributions	26,724	22,253	-	-	26,724	22,253
Capital grants and contributions	612	1,078	-	-	612	1,078
General revenues:						
Property taxes	56,914	53,704	-	-	56,914	53,704
Excises	4,329	4,297	-	-	4,329	4,297
Penalties and interest and other taxes	594	517	-	-	594	517
Grants and contributions not restricted to specific programs	2,525	2,480	-	-	2,525	2,480
Investment income	206	263	-	-	206	263
Other	776	2,826	-	-	776	2,826
Total revenues	<u>96,465</u>	<u>91,752</u>	<u>5,450</u>	<u>4,821</u>	<u>101,915</u>	<u>96,573</u>
Expenses:						
General government	16,101	16,686	-	-	16,101	16,686
Public safety	10,382	10,819	-	-	10,382	10,819
Education	60,652	58,880	-	-	60,652	58,880
Public works	6,499	6,044	-	-	6,499	6,044
Health and human services	1,006	1,074	-	-	1,006	1,074
Culture and recreation	813	740	-	-	813	740
Interest and costs	1,116	1,099	-	-	1,116	1,099
Intergovernmental	975	836	-	-	975	836
Water services	-	-	3,068	3,046	3,068	3,046
Sewer services	-	-	582	627	582	627
Nonmajor services	-	-	1,664	1,645	1,664	1,645
Total expenses	<u>97,544</u>	<u>96,178</u>	<u>5,314</u>	<u>5,318</u>	<u>102,858</u>	<u>101,496</u>
Change in net position before contributions and transfers	(1,079)	(4,426)	136	(497)	(943)	(4,923)
Contributions	76	-	-	-	76	-
Transfers in (out)	(1,732)	(54)	1,732	54	-	-
Change in net position	(2,735)	(4,480)	1,868	(443)	(867)	(4,923)
Net position - beginning of year, as restated	<u>(46,018)</u>	<u>28,755</u>	<u>38,830</u>	<u>40,346</u>	<u>(7,188)</u>	<u>69,101</u>
Net position - end of year	<u>\$ (48,753)</u>	<u>\$ 24,275</u>	<u>\$ 40,698</u>	<u>\$ 39,903</u>	<u>\$ (8,055)</u>	<u>\$ 64,178</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(2,734,403). Key elements of this change are as follows:

Community preservation operations	\$ 694,957
Avalon Bay mitigation contributions, net of transfer to sewer	1,032,908
Chapter 90 state grant proceeds for road improvements	424,137
Depreciation in excess of debt service principal paydown	(2,101,091)
Capital asset additions from current year revenues	918,092
Change in net OPEB liability	(3,631,471)
Change in net pension liability	2,309,010
Change in pension related deferred outflows/(inflows)	(2,543,737)
Other	<u>162,792</u>
Total	<u>\$ (2,734,403)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$1,867,951. This increase is primarily driven by the Town transferring \$1,670,000 from Avalon Bay mitigation funds to establish a sewer capital stabilization account.

D. FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$19,319,759, a change of \$4,041,739 in comparison to the prior year. Key elements of this change are as follows:

Community preservation operations	\$ 694,957
Avalon Bay mitigation contributions	2,775,000
Bond proceeds for various capital projects	3,550,000
Expenditures of chapter 90 and various warrant articles	(2,534,938)
Other	<u>(443,280)</u>
Total	<u>\$ 4,041,739</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 \$5,146,604, while total fund balance was \$9,568,335. 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 <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,146,604	\$ 4,904,847	\$ 241,757	6.4%
Total fund balance	\$ 9,568,335	\$ 9,412,949	\$ 155,386	11.8%

The total fund balance of the general fund changed by \$155,386 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (2,245,710)
Change in stabilization accounts	344,705
Revenues in excess of budget	784,801
Expenditures less than budget	724,961
Prior year deficits raised (snow and ice)	298,034
Change in encumbrances	(25,773)
Other	<u>274,368</u>
Total	\$ <u><u>155,386</u></u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
General stabilization	\$ 2,240,179	\$ 1,812,534	\$ 427,645
Capital stabilization	<u>2,015,203</u>	<u>2,098,143</u>	<u>(82,940)</u>
Total	\$ <u><u>4,255,382</u></u>	\$ <u><u>3,910,677</u></u>	\$ <u><u>344,705</u></u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$6,538,357, a change of \$942,138 over the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$873,766. Major reasons for these amendments include:

- \$600,206 transfer to general stabilization funded by free cash
- \$185,004 increase to capital budget funded by property taxes
- \$60,000 increase to departmental budgets funded by overlay surplus
- \$ 28,556 increase to departmental budgets funded by property taxes

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$152,740,369 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and infrastructure.

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

- Various roadway paving projects
- School security updates
- Town office masonry repairs
- Purchase of various department vehicles and police cruisers
- Various expansions of water and sewer infrastructure

Credit rating. During the fiscal year, the Town maintained a Moody's credit rating of "Aa3".

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$35,796,320, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Office of the Town Accountant
Town of Easton, Massachusetts
136 Elm Street
North Easton, Massachusetts 02356

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current:			
Cash and short-term investments	\$ 14,432,121	\$ 6,621,104	\$ 21,053,225
Investments	10,831,500	-	10,831,500
Receivables, net of allowance for uncollectibles:			
Property taxes	437,610	-	437,610
Excises	369,058	-	369,058
User fees	-	1,102,708	1,102,708
Betterments	1,202,054	2,853,102	4,055,156
Departmental and other	2,057,705	95,135	2,152,840
Intergovernmental	1,360,234	-	1,360,234
Inventories	-	113,056	113,056
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	709,989	-	709,989
Loan receivable	4,923,245	-	4,923,245
Capital assets, not being depreciated	20,241,855	10,898,213	31,140,068
Capital assets, being depreciated net of accumulated depreciation	88,290,885	33,309,416	121,600,301
Deferred Outflows of Resources			
Related to pensions	<u>7,351,145</u>	<u>127,892</u>	<u>7,479,037</u>
Total Assets and Deferred Outflows of Resources	152,207,401	55,120,626	207,328,027
Liabilities			
Current:			
Warrants payable	2,697,624	-	2,697,624
Accrued liabilities	1,095,888	115,739	1,211,627
Deposits held in custody	51,110	-	51,110
Notes payable	2,537,645	6,308,000	8,845,645
Other current liabilities	355,723	-	355,723
Current portion of long-term liabilities:			
Bonds payable	3,309,301	259,476	3,568,777
Accrued employee benefits	31,427	5,016	36,443
Estimated landfill closure and postclosure liability	50,000	-	50,000
Noncurrent:			
Bonds payable	27,196,134	5,031,409	32,227,543
Net pension liability	33,023,346	574,524	33,597,870
Net OPEB liability	124,359,520	1,893,800	126,253,320
Accrued employee benefits	597,114	154,518	751,632
Estimated landfill closure and postclosure liability	650,000	-	650,000
Deferred Inflows of Resources			
Related to pensions	4,601,132	80,048	4,681,180
Related to OPEB	1,262	-	1,262
Other	<u>402,911</u>	<u>-</u>	<u>402,911</u>
Total Liabilities and Deferred Inflows of Resources	200,960,137	14,422,530	215,382,667
Net Position			
Net investment in capital assets	76,286,366	34,159,739	110,446,105
Restricted for:			
Grants and other statutory restrictions	9,327,220	-	9,327,220
Permanent funds:			
Nonexpendable	33,152	-	33,152
Expendable	1,616,480	-	1,616,480
Unrestricted	<u>(136,015,954)</u>	<u>6,538,357</u>	<u>(129,477,597)</u>
Total Net Position	\$ <u>(48,752,736)</u>	\$ <u>40,698,096</u>	\$ <u>(8,054,640)</u>

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

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$ 16,101,342	\$ 180,646	\$ 355,205	\$ -	\$ (15,565,491)	\$ -	\$ (15,565,491)
Public safety	10,382,003	2,572,410	148,704	-	(7,660,889)	-	(7,660,889)
Education	60,651,876	755,323	22,628,125	-	(37,268,428)	-	(37,268,428)
Public works	6,499,351	24	3,170,592	611,810	(2,716,925)	-	(2,716,925)
Health and human services	1,005,616	137,061	310,342	-	(558,213)	-	(558,213)
Culture and recreation	812,538	140,836	111,459	-	(560,243)	-	(560,243)
Interest	1,116,406	-	-	-	(1,116,406)	-	(1,116,406)
Intergovernmental	975,177	-	-	-	(975,177)	-	(975,177)
Total Governmental Activities	97,544,309	3,786,300	26,724,427	611,810	(66,421,772)	-	(66,421,772)
Business-Type Activities							
Water services	3,067,725	3,179,312	-	-	-	111,587	111,587
Sewer services	582,220	417,198	-	-	-	(165,022)	(165,022)
Nonmajor services	1,664,163	1,852,481	-	-	-	188,318	188,318
Total Business-Type Activities	5,314,108	5,448,991	-	-	-	134,883	134,883
Total Primary Government	\$ 102,858,417	\$ 9,235,291	\$ 26,724,427	\$ 611,810	(66,421,772)	134,883	(66,286,889)
General Revenues, Contributions and Transfers							
Property taxes					56,913,524	-	56,913,524
Excises					4,329,070	-	4,329,070
Penalties, interest and other taxes					594,043	-	594,043
Grants and contributions not restricted to specific programs					2,524,882	-	2,524,882
Investment income					205,874	976	206,850
Miscellaneous					776,374	-	776,374
Permanent fund contributions					75,694	-	75,694
Transfers, net					(1,732,092)	1,732,092	-
Total general revenues, contributions and transfers					63,687,369	1,733,068	65,420,437
Change in Net Position					(2,734,403)	1,867,951	(866,452)
Net Position							
Beginning of year, as restated					(46,018,333)	38,830,145	(7,188,188)
End of year					\$ (48,752,736)	\$ 40,698,096	\$ (8,054,640)

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

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	Community Preservation <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets				
Cash and short-term investments	\$ 6,692,553	\$ 872,396	\$ 6,867,172	\$ 14,432,121
Investments	6,687,613	4,143,887	-	10,831,500
Receivables:				
Property taxes	1,293,546	-	-	1,293,546
Excises	616,211	-	-	616,211
Betterments	-	-	1,202,054	1,202,054
Departmental	2,709,200	5,402	77,387	2,791,989
Intergovernmental	134,832	-	1,225,402	1,360,234
Loans	-	4,923,245	-	4,923,245
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 18,133,955</u>	<u>\$ 9,944,930</u>	<u>\$ 9,372,015</u>	<u>\$ 37,450,900</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Warrants payable	\$ 2,697,624	\$ -	\$ -	\$ 2,697,624
Accrued liabilities	893,316	-	-	893,316
Deposits held in custody	-	-	51,110	51,110
Notes payable	-	-	2,537,645	2,537,645
Other liabilities	355,723	-	-	355,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	3,946,663	-	2,588,755	6,535,418
Deferred Inflows of Resources				
Unavailable revenues	4,515,681	4,928,648	2,048,118	11,492,447
Prepayment of taxes	103,276	-	-	103,276
Fund Balances				
Nonspendable	-	-	33,152	33,152
Restricted	-	5,016,282	7,123,975	12,140,257
Committed	2,530,767	-	-	2,530,767
Assigned	1,890,964	-	-	1,890,964
Unassigned	5,146,604	-	(2,421,985)	2,724,619
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>9,568,335</u>	<u>5,016,282</u>	<u>4,735,142</u>	<u>19,319,759</u>
Total Liabilities, Deferred Inflows Of Resources, and Fund Balances	<u>\$ 18,133,955</u>	<u>\$ 9,944,930</u>	<u>\$ 9,372,015</u>	<u>\$ 37,450,900</u>

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

TOWN OF EASTON, MASSACHUSETTS

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

JUNE 30, 2018

Total governmental fund balances	\$ 19,319,759
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 108,532,740 • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 10,365,063 • Deferred outflows of resources related to pensions to be recognized in pension expense in future periods. 7,351,145 • Deferred inflows of resources related to pensions to be recognized in pension expense in future periods. (4,601,132) • Deferred inflows of resources related to OPEB to be recognized in OPEB expense in future periods. (1,262) • Deferred inflows of resources related to gains on refunding bonds are not financial resources, and therefore, are not reported in governmental funds. (299,635) • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (202,572) • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: <ul style="list-style-type: none"> Bonds payable (30,505,435) Net pension liability (33,023,346) Net OPEB liability (124,359,520) Accrued employee benefits (628,541) Landfill liability (700,000) 	
Net position of governmental activities	\$ <u>(48,752,736)</u>

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

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	Community Preservation <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues				
Property taxes	\$ 54,630,584	\$ 1,226,295	\$ 73,564	\$ 55,930,443
Excises	4,326,999	-	-	4,326,999
Departmental	1,549,761	-	1,413,890	2,963,651
Licenses and permits	920,679	-	-	920,679
Fines and forfeitures	407,165	2,585	-	409,750
Intergovernmental	18,362,091	235,218	3,397,275	21,994,584
Investment income	93,147	102,474	194,546	390,167
Other	151,374	-	5,143,488	5,294,862
Total Revenues	<u>80,441,800</u>	<u>1,566,572</u>	<u>10,222,763</u>	<u>92,231,135</u>
Expenditures				
Current:				
General government	14,976,294	44,974	181,138	15,202,406
Public safety	9,088,900	-	591,007	9,679,907
Education	45,450,314	-	4,694,042	50,144,356
Public works	3,470,186	-	246,682	3,716,868
Human services	910,598	-	32,824	943,422
Culture and recreation	512,703	-	231,542	744,245
Debt service	5,038,077	526,578	-	5,564,655
Intergovernmental	975,177	-	-	975,177
Capital outlay	391,267	300,063	2,534,938	3,226,268
Total Expenditures	<u>80,813,516</u>	<u>871,615</u>	<u>8,512,173</u>	<u>90,197,304</u>
Excess (Deficiency) of Revenues Over Expenditures	(371,716)	694,957	1,710,590	2,033,831
Other Financing Sources (Uses)				
Issuance of debt	-	-	3,550,000	3,550,000
Bond premiums	-	-	190,000	190,000
Transfers in	1,569,194	-	1,145,000	2,714,194
Transfers out	(1,042,092)	(145,000)	(3,259,194)	(4,446,286)
Total Other Financing Sources (Uses)	<u>527,102</u>	<u>(145,000)</u>	<u>1,625,806</u>	<u>2,007,908</u>
Change in Fund Balance	155,386	549,957	3,336,396	4,041,739
Fund Balance at Beginning of Year, as reclassified	<u>9,412,949</u>	<u>4,466,325</u>	<u>1,398,746</u>	<u>15,278,020</u>
Fund Balance at End of Year	<u>\$ 9,568,335</u>	<u>\$ 5,016,282</u>	<u>\$ 4,735,142</u>	<u>\$ 19,319,759</u>

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

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

Net changes in fund balances - Total governmental funds	\$	4,041,739																																										
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Capital outlay</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">2,623,901</td> </tr> <tr> <td>Depreciation expense</td> <td></td> <td style="text-align: right;">(6,462,662)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Issuance of debt</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(3,550,000)</td> </tr> <tr> <td>Repayments of debt</td> <td></td> <td style="text-align: right;">4,361,571</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">887,122</td> </tr> </table> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(983,976)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">49,223</td> </tr> </table> • Amortization of deferred gains on refunding bonds. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">37,455</td> </tr> </table> • Change in deferred outflows/inflows of resources related to pensions. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(2,543,737)</td> </tr> </table> • Change in deferred outflows/inflows of resources related to OPEB. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(1,262)</td> </tr> </table> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Change in net pension liability</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">2,309,010</td> </tr> <tr> <td>Change in net OPEB liability</td> <td></td> <td style="text-align: right;">(3,631,471)</td> </tr> <tr> <td>Change in compensated absence liability</td> <td></td> <td style="text-align: right;">78,684</td> </tr> <tr> <td>Change in landfill liability</td> <td></td> <td style="text-align: right;">50,000</td> </tr> </table> 			Capital outlay		2,623,901	Depreciation expense		(6,462,662)	Issuance of debt		(3,550,000)	Repayments of debt		4,361,571			887,122			(983,976)			49,223			37,455			(2,543,737)			(1,262)	Change in net pension liability		2,309,010	Change in net OPEB liability		(3,631,471)	Change in compensated absence liability		78,684	Change in landfill liability		50,000
Capital outlay		2,623,901																																										
Depreciation expense		(6,462,662)																																										
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Change in compensated absence liability		78,684																																										
Change in landfill liability		50,000																																										
Change in net position of governmental activities	\$	<u><u>(2,734,403)</u></u>																																										

TOWN OF EASTON, 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>	
Revenues and Transfers In				
Property taxes	\$ 54,171,377	\$ 54,384,937	\$ 54,384,937	\$ -
Motor vehicle excise	3,500,000	3,500,000	3,960,901	460,901
Licenses, permits and fees	2,525,000	2,525,000	2,470,440	(54,560)
Fines and forfeitures	234,000	234,000	407,165	173,165
Intergovernmental	13,733,250	13,733,250	13,748,746	15,496
Investment income	30,000	30,000	71,569	41,569
Other revenue	465,581	465,581	613,811	148,230
Transfers in	<u>1,394,026</u>	<u>1,394,026</u>	<u>1,394,026</u>	<u>-</u>
Total Revenues and Transfer In	76,053,234	76,266,794	77,051,595	784,801
Expenditures and Transfers Out				
Board of selectmen	561,710	561,710	526,529	35,181
Finance committee	1,500	2,100	1,856	244
Reserve fund	60,000	28,023	-	28,023
Town accountant	231,685	233,485	233,355	130
Board of assessors	256,047	316,047	315,498	549
Town Collector-Treasurer	357,711	357,711	338,424	19,287
Town counsel	170,000	175,000	171,175	3,825
Information technology	212,534	212,534	212,532	2
Town clerk	230,195	259,844	259,802	42
Planning and economic development	316,505	316,505	301,421	15,084
EE benefits and insurance	13,587,885	13,480,485	13,078,892	401,593
Other general government	99,900	99,900	99,425	475
Police department	4,231,541	4,231,541	3,941,323	290,218
Public safety dispatch	604,765	604,765	554,199	50,566
Fire department	3,630,072	3,674,072	3,654,292	19,780
Ambulance	691,703	691,703	686,830	4,873
Inspectional services	300,396	300,396	297,975	2,421
School budget	39,979,017	39,979,017	39,957,609	21,408
South Eastern Regional School	980,235	980,235	980,235	-
DPW administration	2,715,505	2,890,505	2,889,650	855
Snow and ice removal	493,700	493,700	594,876	(101,176)
Health and community services	1,024,631	949,631	912,389	37,242
Library	512,703	512,703	512,703	-
Maturing debt and interest	5,122,125	5,122,125	5,111,053	11,072
County and state assessments	871,560	858,444	975,177	(116,733)
Capital outlay	97,079	282,083	282,083	-
Transfers out	<u>-</u>	<u>600,206</u>	<u>600,206</u>	<u>-</u>
Total Expenditures and Transfer Out	<u>77,340,704</u>	<u>78,214,470</u>	<u>77,489,509</u>	<u>724,961</u>
Excess of revenues and transfers in over expenditures and transfers out	(1,287,470)	(1,947,676)	(437,914)	1,509,762
Other Financing Sources (Uses)				
Use of free cash:				
For operating budget	1,585,504	1,585,504	-	(1,585,504)
For stabilization funding	-	600,206	600,206	-
Use of overlay surplus:				
For operating budget	-	60,000	-	(60,000)
Raise prior year deficits	<u>(298,034)</u>	<u>(298,034)</u>	<u>-</u>	<u>298,034</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,292</u>	<u>\$ 162,292</u>

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities Enterprise Fund			Total
	Water Fund	Sewer Fund	Nonmajor Fund	
Assets				
Current:				
Cash and short-term investments	\$ 3,165,090	\$ 2,999,995	\$ 456,019	\$ 6,621,104
Receivables:				
User fees, net of allowance for uncollectibles	977,673	52,402	72,633	1,102,708
Betterments	-	2,853,102	-	2,853,102
Departmental	-	95,135	-	95,135
Inventories	<u>113,056</u>	<u>-</u>	<u>-</u>	<u>113,056</u>
Total current assets	4,255,819	6,000,634	528,652	10,785,105
Noncurrent:				
Capital assets, not being depreciated	3,491,007	7,407,206	-	10,898,213
Capital assets being depreciated, net of accumulated depreciation	<u>28,444,264</u>	<u>4,865,152</u>	<u>-</u>	<u>33,309,416</u>
Total noncurrent assets	31,935,271	12,272,358	-	44,207,629
Deferred Outflows of Resources				
Related to pensions	<u>127,892</u>	<u>-</u>	<u>-</u>	<u>127,892</u>
Total Assets and Deferred Outflows of Resources	36,318,982	18,272,992	528,652	55,120,626
Liabilities				
Current:				
Accrued liabilities	28,945	86,794	-	115,739
Notes payable	80,000	6,228,000	-	6,308,000
Current portion of long-term liabilities:				
Bonds payable	145,000	114,476	-	259,476
Accrued employee benefits	<u>5,016</u>	<u>-</u>	<u>-</u>	<u>5,016</u>
Total current liabilities	258,961	6,429,270	-	6,688,231
Noncurrent:				
Bonds payable	1,365,000	3,666,409	-	5,031,409
Net pension liability	574,524	-	-	574,524
Net OPEB liability	1,893,800	-	-	1,893,800
Accrued employee benefits	<u>154,518</u>	<u>-</u>	<u>-</u>	<u>154,518</u>
Total noncurrent liabilities	3,987,842	3,666,409	-	7,654,251
Deferred Inflows of Resources				
Related to pensions	<u>80,048</u>	<u>-</u>	<u>-</u>	<u>80,048</u>
Total Liabilities and Deferred Inflows of Resources	4,326,851	10,095,679	-	14,422,530
Net Position				
Net investment in capital assets	30,520,908	3,638,831	-	34,159,739
Unrestricted	<u>1,471,223</u>	<u>4,538,482</u>	<u>528,652</u>	<u>6,538,357</u>
Total Net Position	<u>\$ 31,992,131</u>	<u>\$ 8,177,313</u>	<u>\$ 528,652</u>	<u>\$ 40,698,096</u>

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Fund			
	Water Fund	Sewer Fund	Nonmajor Fund	Total
Operating Revenues				
Charges for services	\$ 3,111,420	\$ 339,431	\$ 1,370,326	\$ 4,821,177
Other	67,892	77,767	482,155	627,814
Total Operating Revenues	3,179,312	417,198	1,852,481	5,448,991
Operating Expenses				
Personnel services	1,322,613	-	25,000	1,347,613
Purchase of services	874,546	193,003	1,639,163	2,706,712
Depreciation	823,839	312,836	-	1,136,675
Total Operating Expenses	3,020,998	505,839	1,664,163	5,191,000
Operating Income (Loss)	158,314	(88,641)	188,318	257,991
Nonoperating Revenues (Expenses)				
Investment income	976	-	-	976
Interest expense	(46,727)	(76,381)	-	(123,108)
Total Nonoperating Revenues (Expenses), Net	(45,751)	(76,381)	-	(122,132)
Income (Loss) Before Transfers	112,563	(165,022)	188,318	135,859
Transfers in	-	1,742,092	-	1,742,092
Transfers out	(10,000)	-	-	(10,000)
Change in Net Position	102,563	1,577,070	188,318	1,867,951
Net Position at Beginning of Year, as restated	31,889,568	6,600,243	340,334	38,830,145
Net Position at End of Year	\$ 31,992,131	\$ 8,177,313	\$ 528,652	\$ 40,698,096

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Fund	Total
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 3,108,096	\$ 492,676	\$ 1,364,988	\$ 4,965,760
Payments to vendors and employees	(2,128,425)	(193,003)	(1,191,950)	(3,513,378)
Net Cash Provided By Operating Activities	979,671	299,673	173,038	1,452,382
Cash Flows From Noncapital Financing Activities				
Transfers in	-	1,742,092	-	1,742,092
Transfers out	(10,000)	-	-	(10,000)
Net Cash Provided by (Used For) Noncapital Financing Activities	(10,000)	1,742,092	-	1,732,092
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets	(307,397)	(890,260)	-	(1,197,657)
Proceeds from issuance of notes	80,000	6,228,000	-	6,308,000
Principal payments on bonds	(202,000)	(112,066)	-	(314,066)
Principal payments on notes	-	(6,070,000)	-	(6,070,000)
Interest expense	(50,658)	(90,344)	-	(141,002)
Net Cash (Used For) Capital and Related Financing Activities	(480,055)	(934,670)	-	(1,414,725)
Cash Flows From Investing Activities				
Investment income	976	-	-	976
Net Cash Provided By Investing Activities	976	-	-	976
Net Change in Cash and Short-Term Investments	490,592	1,107,095	173,038	1,770,725
Cash and Short-Term Investments, Beginning of Year	2,674,498	1,892,900	282,981	4,850,379
Cash and Short-Term Investments, End of Year	\$ 3,165,090	\$ 2,999,995	\$ 456,019	\$ 6,621,104
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities				
Operating income (loss)	\$ 158,314	\$ (88,641)	\$ 188,318	\$ 257,991
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	823,839	312,836	-	1,136,675
Changes in assets, liabilities, and deferred outflows/inflows:				
Receivables	(71,217)	75,478	(15,280)	(11,019)
Inventory	(20,259)	-	-	(20,259)
Deferred outflows related to pensions	(18,917)	-	-	(18,917)
Accrued liabilities	29,609	-	-	29,609
Net pension liability	(40,171)	-	-	(40,171)
Net OPEB liability	55,302	-	-	55,302
Deferred inflows related to pensions	63,171	-	-	63,171
Net Cash Provided By Operating Activities	\$ 979,671	\$ 299,673	\$ 173,038	\$ 1,452,382

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

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

	Other Post Employment Benefits <u>Trust Fund</u>	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
Assets			
Cash and short-term investments	\$ -	\$ 433,639	\$ 629,603
Investments	<u>113,869</u>	<u>309,305</u>	<u>-</u>
Total Assets	113,869	742,944	629,603
Liabilities			
Other liabilities	<u>-</u>	<u>-</u>	<u>629,603</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>629,603</u>
Net Position			
Total net position restricted for OPEB and other purposes	<u>\$ 113,869</u>	<u>\$ 742,944</u>	<u>\$ -</u>

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

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

	<u>Other Post Employment Benefits Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions		
Investment income	\$ 6,076	\$ 27,946
Contributions	<u>3,214,212</u>	<u>46,531</u>
Total additions	3,220,288	74,477
Deductions		
Benefit payments	3,214,212	-
Other	<u>-</u>	<u>63,475</u>
Total deductions	<u>3,214,212</u>	<u>63,475</u>
Net increase	6,076	11,002
Net position restricted for OPEB and other purposes		
Beginning of year	<u>107,793</u>	<u>731,942</u>
End of year	<u><u>\$ 113,869</u></u>	<u><u>\$ 742,944</u></u>

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

TOWN OF EASTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Easton (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 government 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.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, 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* was established by the Town for the purpose of acquiring land for conservation purposes, developing affordable housing units in Town, and preserving and acquiring historical property.

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

The Town reports the following major proprietary funds:

- The *Water Enterprise Fund* accounts for the resources and costs associated with the Town's operating costs and maintenance of water infrastructure.
- The *Sewer Enterprise Fund* accounts for the resources and costs associated with the Town's operating costs and maintenance of sewer infrastructure.

In addition, the Town has a Trash Enterprise Fund, used to account for solid waste removal activities, and Cable Access Enterprise Fund, used to account for community programming services. Both activities combined are reported as a nonmajor fund.

The fiduciary fund financial statements are reporting 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 *OPEB Trust Fund* accounts for resources accumulated for providing qualified retirees other post-employment benefits (OPEB), other than pensions, which is mainly attributable to health care.
- The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the OPEB Trust Fund or permanent funds, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Agency Fund* accounts for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are

invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

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

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.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited 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 is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$30,403.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased

or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

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

I. Compensated Absences

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

J. Long-Term Obligations

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

K. 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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

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

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

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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 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)	\$ 80,441,800	\$ 80,813,516
Other financing sources/uses (GAAP basis)	<u>1,569,194</u>	<u>1,042,092</u>
Subtotal (GAAP Basis)	82,010,994	81,855,608
To adjust property tax revenues to the budgetary basis	(241,670)	-
To reverse expenditures of prior year appropriation carryforwards	-	(461,141)
To book current year appropriation carryforwards	-	435,368
To reverse State contributions for teachers retirement	(4,519,169)	(4,519,169)
To record use of free cash as a funding source for stabilization funding	600,206	-
To reverse indirect cost transfers	547,753	547,753
To reverse nonbudgeted stabilization activity	(744,499)	(399,794)
Other timing differences	<u>(1,814)</u>	<u>30,884</u>
Budgetary Basis	<u>\$ 77,651,801</u>	<u>\$ 77,489,509</u>

C. Excess of Expenditure over Appropriations

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

Snow and Ice removal	\$	(101,176)
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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 transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General 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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2018, none of the Town's bank balance of \$33,498,112 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 is the actual rating as of year-end for each investment of the Town:

<u>Investment Grade</u>	<u>U.S. Treasury Bonds</u>	<u>Federal Agency Securities</u>	<u>Corporate Bonds</u>	<u>Bond Mutual Funds</u>	<u>Equity Mutual Funds</u>	<u>Certificate of Deposits</u>
AAA	\$ 2,013,271	\$ 2,853,081	\$ -	\$ -	\$ -	\$ -
A+	-	-	523,710	-	-	-
A	-	-	361,733	-	-	-
A-	-	-	836,966	-	-	-
BBB+	-	-	373,692	-	-	-
BBB	-	-	296,024	-	-	-
Exempt for Disclosure	-	-	-	457,800	1,155,990	2,382,407
Total investments	<u>\$ 2,013,271</u>	<u>\$ 2,853,081</u>	<u>\$ 2,392,125</u>	<u>\$ 457,800</u>	<u>\$ 1,155,990</u>	<u>\$ 2,382,407</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 does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Amount</u>	<u>< 1 Year</u>	<u>1-5 Years</u>
U.S. Treasury Notes	\$ 2,013,271	\$ -	\$ 2,013,271
Federal Agency Securities	2,853,081	-	2,853,081
Corporate Bonds	2,392,125	245,832	2,146,293
Bond Mutual Funds	457,800	457,800	-
Equity Mutual Funds	1,155,990	1,155,990	-
Certificates of Deposits	2,382,407	2,382,407	-
Total	<u>\$ 11,254,674</u>	<u>\$ 4,242,029</u>	<u>\$ 7,012,645</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 does not have policies for 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:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Investments by fair value level:				
Debt securities:				
U.S. Treasury Securities	\$ 2,013,271	\$ -	\$ 2,013,271	\$ -
Federal Agency Securities	2,853,081	-	2,853,081	-
Corporate Bonds	2,392,126	-	2,392,126	-
Equity Securities:				
Bond Mutual Funds	457,800	457,800	-	-
Corporate Equities:				
Utilities	209,272	209,272	-	-
Information Technology	56,964	56,964	-	-
Financials	187,458	187,458	-	-
Healthcare	385,352	385,352	-	-
Consumer Goods	316,944	316,944	-	-
Total	<u>\$ 8,872,268</u>	<u>\$ 1,613,790</u>	<u>\$ 7,258,478</u>	<u>\$ -</u>

5. Property Taxes and Excises Receivables

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor’s for 100% of the estimated fair market value. Taxes are due on a quarterly basis 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 taxes and excises receivables at June 30, 2018 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 365,344	\$ (1,252)	\$ 364,092
Personal property taxes	95,212	(65,807)	29,405
Tax liens	788,877	(78,888)	709,989
Other	44,113	-	44,113
Total property taxes	<u>1,293,546</u>	<u>(145,947)</u>	<u>1,147,599</u>
Motor vehicle excise	<u>616,211</u>	<u>(247,153)</u>	<u>369,058</u>
Grand total	<u>\$ 1,909,757</u>	<u>\$ (393,100)</u>	<u>\$ 1,516,657</u>

6. User Fees Receivables

The Town provides water, sewer, and trash services for its residents. Bills are sent monthly to residential homes and commercial accounts, based on usage.

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

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water	\$ 988,062	\$ (10,389)	\$ 977,673
Sewer	52,475	(73)	52,402
Nonmajor	76,538	(3,905)	72,633
Total	<u>\$ 1,117,075</u>	<u>\$ (14,367)</u>	<u>\$ 1,102,708</u>

7. Betterments Receivable

The Town offers a betterment loan program for failing septic systems. The loans are provided, through an agreement between the Town, the Massachusetts Department of Environmental Protection, and the Water Pollution Abatement Trust. The loan is offered at an interest rate of two percent for a period of 20 years.

Betterments receivable at June 30, 2018 was \$4,055,156.

8. Intergovernmental Receivables

This balance represents Chapter 90 reimbursements as well as other various federal and state grants.

9. Loan Receivable

This balance represents a loan from Beacon Communities in relation to the Beacon Shovelworks project that was funded by the Community Preservation fund. The original amount of the loan is \$4,350,000 with an annually compounding interest rate of 3%. The maturity date on this loan is April 11, 2028. As of June 30, 2018, the outstanding balance on the loan receivable is \$4,923,245 which includes the original loan balance plus accrued interest of \$573,245.

10. Interfund Transfers

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund transfers must be utilized.

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2018:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,569,194	\$ 1,042,092
Community Preservation Fund	-	145,000
Nonmajor Funds:		
Special Revenue Funds:		
Town revolving funds	-	2,700,000
Other special revenue funds	-	553,669
Capital Project Funds	1,000,000	-
Permanent Funds	<u>145,000</u>	<u>5,525</u>
Subtotal Nonmajor Funds	1,145,000	3,259,194
<u>Business-Type Funds:</u>		
Sewer Fund	1,742,092	-
Water Fund	<u>-</u>	<u>10,000</u>
Subtotal Business-Type Funds	<u>1,742,092</u>	<u>10,000</u>
Grand Total	\$ <u><u>4,456,286</u></u>	\$ <u><u>4,456,286</u></u>

The Town transferred \$2,670,000 from the Avalon Bay mitigation revolving fund to the capital and sewer capital stabilization accounts. Of the \$553,669 transferred from other special revenue funds, \$425,000 was transferred from the Oliver Ames Highway and School accounts to cover expenditures incurred and paid by the general fund. Other transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

11. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 121,909,012	\$ 3,489,242	\$ -	\$ 125,398,254
Machinery, equipment, and furnishings	11,212,724	1,026,053	-	12,238,777
Infrastructure	44,715,421	1,093,794	-	45,809,215
Total capital assets, being depreciated	177,837,157	5,609,089	-	183,446,246
Less accumulated depreciation for:				
Buildings and improvements	(51,914,086)	(4,058,127)	-	(55,972,213)
Machinery, equipment, and furnishings	(8,629,945)	(688,173)	-	(9,318,118)
Infrastructure	(28,148,668)	(1,716,362)	-	(29,865,030)
Total accumulated depreciation	(88,692,699)	(6,462,662)	-	(95,155,361)
Total capital assets, being depreciated, net	89,144,458	(853,573)	-	88,290,885
Capital assets, not being depreciated:				
Land	16,171,989	-	-	16,171,989
Intangible assets	4,000,000	-	-	4,000,000
Construction in progress	3,055,054	69,866	(3,055,054)	69,866
Total capital assets, not being depreciated	23,227,043	69,866	(3,055,054)	20,241,855
Governmental activities capital assets, net	\$ 112,371,501	\$ (783,707)	\$ (3,055,054)	\$ 108,532,740
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 389,519	\$ -	\$ -	\$ 389,519
Machinery, equipment, and furnishings	2,206,665	46,538	-	2,253,203
Infrastructure	51,669,892	163,328	-	51,833,220
Total capital assets, being depreciated	54,266,076	209,866	-	54,475,942
Less accumulated depreciation for:				
Buildings and improvements	(325,687)	(7,667)	-	(333,354)
Machinery, equipment, and furnishings	(1,640,006)	(96,032)	-	(1,736,038)
Infrastructure	(18,064,158)	(1,032,976)	-	(19,097,134)
Total accumulated depreciation	(20,029,851)	(1,136,675)	-	(21,166,526)
Total capital assets, being depreciated, net	34,236,225	(926,809)	-	33,309,416
Capital assets, not being depreciated:				
Land	3,085,138	-	-	3,085,138
Construction in progress	6,825,283	987,792	-	7,813,075
Total capital assets, not being depreciated	9,910,421	987,792	-	10,898,213
Business-type activities capital assets, net	\$ 44,146,646	\$ 60,983	\$ -	\$ 44,207,629

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

Governmental Activities:	
General government	\$ 87,487
Public safety	468,627
Education	3,927,491
Public works	1,916,191
Culture and recreation	40,777
Health and human services	<u>22,089</u>
Total depreciation expense - governmental activities	\$ <u>6,462,662</u>
Business-Type Activities:	
Water	\$ 823,839
Sewer	<u>312,836</u>
Total depreciation expense - business-type activities	\$ <u>1,136,675</u>

12. 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 Statement No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

13. Warrants Payable

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

14. Notes Payable

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/18</u>
<u>Governmental Activities</u>				
MWPAT Loan - Septic	2.00%	08/23/15	upon completion	\$ 445,645
Esco Energy Efficiency	2.50%	08/18/17	08/17/18	380,000
Wastewater upgrade - school	2.50%	08/18/17	08/17/18	20,000
Pavement Management	2.50%	08/18/17	08/17/18	500,000
2 F550 Hooklifts	2.50%	08/18/17	08/17/18	240,000
Municipal Facilities Capital Improvements	2.50%	08/18/17	08/17/18	200,000
Fire Ambulance Replacement	2.50%	08/18/17	08/17/18	280,000
DPW Salt Brine Equipment	2.50%	08/18/17	08/17/18	100,000
DPW Highway hooklift	2.50%	08/18/17	08/17/18	120,000
IT Telephone System Upgrade	2.50%	08/18/17	08/17/18	66,000
Bucket Truck	3.00%	06/14/18	08/17/18	186,000
Subtotal				2,537,645
<u>Business-Type Activities</u>				
Wastewater Treatment (Queset Commercial District)	2.50%	08/18/17	08/17/18	3,070,000
Sewer Design, Permit & construction (Queset Commercial District)	2.50%	08/18/17	08/17/18	1,315,000
Wastewater Treatment (5 Corners District)	2.50%	08/18/17	08/17/18	485,000
Sewer Design (5 Corners District)	2.50%	08/18/17	08/17/18	1,300,000
Wastewater Treatment	3.00%	06/14/18	08/17/18	58,000
Water Well #4 Replacement	3.00%	06/14/18	08/17/18	80,000
Subtotal				6,308,000
Grand Total				\$ 8,845,645

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

	Balance Beginning of Year	Issues	Maturities	Balance End of Year
<u>Governmental Activities</u>				
DPW pavement management road funding	\$ 500,000	\$ -	\$ (500,000)	\$ -
ESCO energy efficiency	3,180,000	-	(3,180,000)	-
Wastewater upgrade - school	330,000	-	(330,000)	-
Hooklift	100,000	-	(100,000)	-
School security improvements	100,000	-	(100,000)	-
Pavement managements	300,000	-	(300,000)	-
MWPAT Loan - Septic	320,879	124,766	-	445,645
Esco Energy Efficiency	-	380,000	-	380,000
Wastewater upgrade - school	-	20,000	-	20,000
Pavement Management	-	500,000	-	500,000
2 F550 Hooklifts	-	240,000	-	240,000
Municipal Facilities Capital Improvements	-	200,000	-	200,000
Fire Ambulance Replacement	-	280,000	-	280,000
DPW Salt Brine Equipment	-	100,000	-	100,000
DPW Highway hooklift	-	120,000	-	120,000
IT Telephone System Upgrade	-	66,000	-	66,000
Bucket Truck	-	186,000	-	186,000
Subtotal	4,830,879	2,216,766	(4,510,000)	2,537,645
<u>Business-Type Activities</u>				
Sewer design, permit and construction (Queset commercial district)	1,315,000	-	(1,315,000)	-
Sewer design (5 Corners district)	1,200,000	-	(1,200,000)	-
Wastewater treatment (Queset commercial district)	3,070,000	-	(3,070,000)	-
Wastewater treatment (5 Corners district)	485,000	-	(485,000)	-
Wastewater Treatment (Queset Commercial District)	-	3,070,000	-	3,070,000
Sewer Design, Permit & construction (Queset Commercial District)	-	1,315,000	-	1,315,000
Wastewater Treatment (5 Corners District)	-	485,000	-	485,000
Sewer Design (5 Corners District)	-	1,300,000	-	1,300,000
Wastewater Treatment	-	58,000	-	58,000
Water Well #4 Replacement	-	80,000	-	80,000
Subtotal	6,070,000	6,308,000	(6,070,000)	6,308,000
Grand Total	\$ 10,900,879	\$ 8,524,766	\$ (10,580,000)	\$ 8,845,645

15. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
MWPAT sewer loan	2020	0.00	\$ 15,142
Landfill closure - refunded	2023	2.00 - 3.00	600,000
School Planning - refunded	2023	2.00 - 3.00	470,000
MWPAT wastewater study	2023	3.00 - 5.00	12,312
Library refunded	2019	4.00 - 5.00	35,000
Landfill closure - refunded	2020	4.00 - 5.00	185,000
Foundry street - refunded	2020	4.00 - 5.00	30,000
Concom Ind - Lewis Farms refunded	2020	4.00 - 5.00	10,000
Library addition	2020	2.00 - 5.00	70,000
Capital budget - DPW roof	2020	2.00 - 5.00	20,000
School electrical updates	2020	2.00 - 5.00	40,000
Capital budget - stadium	2024	2.00 - 5.00	540,000
School construction	2027	2.00 - 5.00	2,115,000
MWPAT	2033	2.00	238,206
Street Reconstruction	2027	2.00 - 3.00	540,000
Fire Station Roof	2033	2.00 - 3.00	125,000
MWPAT - Septic Loan Program	2033	0.00	150,000
Chestnut Street Land Acquisition	2033	2.00 - 3.00	1,885,000
Capital budget - Equipment	2022	2.00 - 3.00	125,000
Capital budget - Gov Ames/Middle School Roof/Equipment	2023	3.00 - 3.50	620,000
Capital budget - Main Street/DPW Equipment/Asset Mgmt/School Van	2017 - 2028	2.00 - 4.00	1,145,000
School construction - refunded	2026	2.00 - 4.00	10,105,000
CPA land acquisition - refunded	2026	2.00 - 4.00	715,000
MWPAT 98-1026-B Series 18 Title V	2035	0.00	425,000
MWPAT 98-1026-C Series 18 Title V	2035	0.00	425,000
Land acquisition	2035	2.00 - 3.50	2,320,000
Capital budget - School roofs/departmental equipment	2035	2.00 - 3.50	2,515,000
Moreau Hall Roof	2035	2.00 - 3.50	60,000
Pavement Management	2035	2.00 - 3.50	460,000
Ambulance	2035	2.00 - 3.50	210,000
DPW Hooklift	2035	2.00 - 3.50	90,000
DPW Mun Facilities Improvements	2035	2.00 - 3.50	180,000
MCWT CWT-14-04 Series 20	2035	2.00 - 3.50	479,775
Pavement Management	2035	2.125 - 4.00	467,000
DPW Hooklift	2035	2.125 - 4.00	91,700
School WWTP	2035	2.125 - 4.00	135,800
School Security improvements	2035	2.125 - 4.00	185,700
ESCO energy efficiency	2035	2.125 - 4.00	2,669,800
Total Governmental Activities			\$ <u>30,505,435</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
Water Main Replacement	2018	2.00 - 4.00	\$ 180,000
Well #4 Replacement	2018	2.00 - 4.00	180,000
Bay Road land acquisition - refunded	2026	2.00 - 4.00	230,000
Water main replacement program	2029	2.00 - 4.00	192,500
Water	2029	2.00 - 4.00	142,500
Water main construction	2033	2.00 - 3.00	585,000
MWPAT	2043	2.40	<u>3,780,885</u>
Total Business-Type Activities			<u>\$ 5,290,885</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	\$ 3,309,301	\$ 982,121	\$ 4,291,422
2020	3,210,045	877,321	4,087,366
2021	3,018,235	761,543	3,779,778
2022	3,049,014	652,990	3,702,004
2023	3,049,808	543,092	3,592,900
2024 - 2028	10,309,262	1,303,550	11,612,812
2029 - 2033	3,476,875	389,354	3,866,229
2034 - 2036	<u>1,082,895</u>	<u>52,568</u>	<u>1,135,463</u>
Total	<u>\$ 30,505,435</u>	<u>\$ 5,562,539</u>	<u>\$ 36,067,974</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 259,476	\$ 145,612	\$ 405,088
2020	256,939	139,123	396,062
2021	259,454	131,836	391,290
2022	262,023	124,300	386,323
2023	264,648	116,715	381,363
2024 - 2028	1,254,625	480,280	1,734,905
2029 - 2033	954,223	359,514	1,313,737
2034 - 2038	832,980	185,489	1,018,469
2039 - 2043	<u>946,517</u>	<u>73,642</u>	<u>1,020,159</u>
Total	<u>\$ 5,290,885</u>	<u>\$ 1,756,511</u>	<u>\$ 7,047,396</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
<u>Governmental Activities</u>						
Bonds payable	\$ 31,317,006	\$ 3,550,000	\$ (4,361,571)	\$ 30,505,435	\$ (3,309,301)	\$ 27,196,134
Net pension liability	35,332,356	-	(2,309,010)	33,023,346	-	33,023,346
Net OPEB liability	120,728,049	3,631,471	-	124,359,520	-	124,359,520
Other:						
Accrued employee benefits	707,225	167,473	(246,157)	628,541	(31,427)	597,114
Landfill closure	750,000	-	(50,000)	700,000	(50,000)	650,000
Subtotal - other	1,457,225	167,473	(296,157)	1,328,541	(81,427)	1,247,114
Total	\$ 188,834,636	\$ 7,348,944	\$ (6,966,738)	\$ 189,216,842	\$ (3,390,728)	\$ 185,826,114
<u>Business-Type Activities</u>						
Bonds payable	\$ 5,604,951	\$ -	\$ (314,066)	\$ 5,290,885	\$ (259,476)	\$ 5,031,409
Net pension liability	614,695	-	(40,171)	574,524	-	574,524
Net OPEB liability	1,838,498	55,302	-	1,893,800	-	1,893,800
Other:						
Accrued employee benefits	129,925	29,609	-	159,534	(5,016)	154,518
Subtotal - other	129,925	29,609	-	159,534	(5,016)	154,518
Total	\$ 8,188,069	\$ 84,911	\$ (354,237)	\$ 7,918,743	\$ (264,492)	\$ 7,654,251

16. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In 2002, the Town authorized borrowing \$2,400,000 to fund the expected costs of re-capping and monitoring of the landfill.

The \$700,000 reported as landfill closure and postclosure care liability at June 30, 2018 represents what it would cost to perform all closure and post-closure care remaining on the closed landfill site in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

17. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position/fund balance by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position/fund balance, 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. The following is a summary of other deferred inflows of resources as of June 30, 2018:

	Entity-wide Basis	Fund Basis		
	Governmental	Governmental Funds		
	Activities	General Fund	CPA	Nonmajor
Unavailable revenues	\$ -	\$ 4,515,681	\$ 4,928,648	\$ 2,048,118
Prepayment of taxes	103,276	103,276	-	-
Gain on refunding bonds	299,635	-	-	-
	<u>\$ 402,911</u>	<u>\$ 4,618,957</u>	<u>\$ 4,928,648</u>	<u>\$ 2,048,118</u>

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.

Gains on refunding bonds are reported in the government-wide statement of net position in connection with the unamortized amount of gains resulting from the refunding of long-term bonds.

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting and capital stabilization funds set aside by Town Meeting vote for future capital acquisitions and improvements.

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 surplus set aside to be used in the subsequent year's budget voted by Town Meeting.

Unassigned - Represents amounts that are available to be spent in future periods and temporary deficit balances in other governmental funds.

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

	General Fund	Community Preservation Funds	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 33,152	\$ 33,152
Total Nonspendable	-	-	33,152	33,152
Restricted				
Bonded projects	-	-	1,196,557	1,196,557
Special revenue funds:				
KFD extended day	-	-	250,433	250,433
Custodial revolving	-	-	253,016	253,016
Special education revolving	-	-	364,947	364,947
Athletic revolving	-	-	131,668	131,668
Oliver Ames Trust - highway	-	-	321,289	321,289
Oliver Ames Trust - school	-	-	196,186	196,186
Underground utilities	-	-	250,000	250,000
Special education circuit breaker	-	-	797,518	797,518
Septic loan betterments	-	-	747,194	747,194
Other special revenue funds	-	-	998,687	998,687
Expendable permanent funds:				
Conservation trust	-	-	163,091	163,091
Affordable housing trust - CPA	-	-	1,183,644	1,183,644
Other expendable permanent funds	-	-	269,745	269,745
Community preservation funds	-	5,016,282	-	5,016,282
Total Restricted	-	5,016,282	7,123,975	12,140,257
Committed				
Nonlapsing capital appropriations	515,564	-	-	515,564
Capital stabilization	2,015,203	-	-	2,015,203
Total Committed	2,530,767	-	-	2,530,767
Assigned				
Debt service	29,662	-	-	29,662
For encumbrances	250,890	-	-	250,890
For next year's expenditures	1,610,412	-	-	1,610,412
Total Assigned	1,890,964	-	-	1,890,964
Unassigned				
General fund	2,906,425	-	-	2,906,425
General stabilization	2,240,179	-	-	2,240,179
Deficits	-	-	(2,421,985)	(2,421,985)
Total Unassigned	5,146,604	-	(2,421,985)	2,724,619
Total Fund Balance	\$ 9,568,335	\$ 5,016,282	\$ 4,735,142	\$ 19,319,759

19. Retirement System – Bristol County Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Bristol County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 645 County Street, County Crossing, Taunton, Massachusetts 02780.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10%, 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/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4

require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

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

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2018 was \$4,054,011, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2018, the Town reported a liability of \$33,597,870 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the Town's proportion was 10.7669%.

For the year ended June 30, 2018, the Town recognized pension expense of \$4,501,404. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 4,256,264	\$ -
Changes of assumptions	-	(549,701)
Net difference between projected and actual earnings on pension plan investments	3,185,193	(4,038,029)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>37,580</u>	<u>(93,450)</u>
Total	<u>\$ 7,479,037</u>	<u>\$ (4,681,180)</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:	<u>Net deferred outflows (inflows) of resources</u>
2019	\$ 1,766,904
2020	1,339,083
2021	73,576
2022	<u>(381,706)</u>
Total	<u>\$ 2,797,857</u>

D. Actuarial Assumptions

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

Valuation Date	January 1, 2018
Actuarial cost method	Entry age
Inflation	4.00%
Salary increases	2.75% - 5.50%
Investment rate of return	7.75%

Mortality rates were as follows:

- Pre-retirement - reflects RP-2014 Blue Collar Mortality Table with Scale MP-2014, fully generational.
- Health Retiree – Group 1 & 2 retirees are represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three years for females, fully generational. Group 4 retirees are represented by the RP-2014 Blue Collar Mortality Table set forward three years for males and six years for females, fully generational.
- Disabled Retiree – Group 1 & 2 disabled retirees are represented by the RP-2000 Mortality Table set forward six years. Group 4 disabled retirees are represented by RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2014.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to

produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	46.5%	7.9%
Fixed Income	24.5%	4.6%
Private equity	8.5%	10.5%
Real estate	7.5%	6.5%
Hedge funds	5.0%	5.9%
Infrastructure	5.0%	7.6%
Timber	3.0%	7.5%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
\$ 45,596,599	\$ 33,597,870	\$ 23,491,279

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.

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

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65.

Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

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

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

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

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)

- Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2017 are summarized in the following table:

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

E. Discount Rate

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

F. Sensitivity Analysis

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

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

G. Special Funding Situation

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

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense was \$83,708,364 and \$8,736,886 respectively, based on a proportionate share of 0.365772%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution as both a revenue and expenditure in the general fund, and its portion of the collective pension expense as both a revenue and expense in the governmental activities.

21. 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 2002, 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, except where noted otherwise.

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 the Group Insurance Commission. 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 July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	635
Active employees	<u>616</u>
Total	<u><u>1,251</u></u>

B. Investments

The OPEB trust fund assets consist of mutual funds.

Rate of return. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. With minimal Plan assets as a percentage of the Total OPEB liability, the Town did not calculate its money-weighted rate of return.

C. Actuarial Assumptions and Other Inputs

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

Actuarial cost method	Entry age normal
Investment rate of return	3.75%, net of OPEB plan investment expense
Discount rate	3.75%
Healthcare cost trend rates	5.50% for 2017, fluctuating .50% to an ultimate rate of 4.50% as of 2020 and later years
Retirees' share of benefit-related costs	25% to 50%

75% of future retirees are assumed to participate in the retiree medical plan. 80% of future retirees are expected to elect life insurance.

Mortality: It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2016, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2016.

D. Discount Rate

The Town does not have an investment policy detailing the assumed asset allocation on the OPEB plan's portfolio along with the long-term expected real rate of return for each major asset class.

The discount rate used to measure the total OPEB liability was 3.75% as the Town selected it as representative of the 20-year, high-quality municipal bond rate. The project of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. With minimal Plan assets as a percentage of the liability, target asset allocation and long-term expected rate of return data is not provided as the Town expects to continue to use the 20-year, high-quality municipal bond rate.

E. Net OPEB Liability

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

Total OPEB liability	\$ 126,367,189
Plan fiduciary net position	<u>113,869</u>
Net OPEB liability	<u>\$ 126,253,320</u>

Plan fiduciary net position as a percentage of the total OPEB liability 0.09%

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	\$ 122,674,340	\$ 107,793	\$ 122,566,547
Changes for the year:			
Service cost	2,629,277	-	2,629,277
Interest	4,632,583	-	4,632,583
Contributions - employer	-	3,214,212	(3,214,212)
Net investment income	-	6,076	(6,076)
Benefit payments	<u>(3,569,011)</u>	<u>(3,214,212)</u>	<u>(354,799)</u>
Net Changes	<u>3,692,849</u>	<u>6,076</u>	<u>3,686,773</u>
Balances, end of year	<u>\$ 126,367,189</u>	<u>\$ 113,869</u>	<u>\$ 126,253,320</u>

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

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

1% Decrease	Current Discount Rate	1% Increase
\$ 152,589,396	\$ 126,253,320	\$ 106,410,932

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% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 104,437,845	\$ 126,253,320	\$ 155,293,695

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

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$7,257,532. At June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Net difference between projected and actual OPEB investment earnings	\$ -	\$ (1,262)
Total	<u>\$ -</u>	<u>\$ (1,262)</u>

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

<u>Year Ended June 30:</u>	
2019	\$ (285)
2020	(285)
2021	(286)
2022	<u>(406)</u>
Total	<u>\$ (1,262)</u>

22. Subsequent Events

Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds	\$ 2,895,000	3.00 - 5.00%	8/16/18	8/16/38
Bond anticipation notes	\$ 7,287,520	2.75%	8/17/18	8/16/19

23. Commitments and Contingencies

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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.

24. Beginning Fund Balance/Net Position Restatement

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

Government-Wide Financial Statements:

	Business-Type Activities				
	Governmental Activities	Water Fund	Sewer Fund	Trash	Total
As previously reported	\$ 24,275,067	\$ 32,962,460	\$ 6,600,243	\$ 340,334	\$ 39,903,037
Implementation of GASB 75 (OPEB)	<u>(70,293,400)</u>	<u>(1,072,892)</u>	<u>-</u>	<u>-</u>	<u>(1,072,892)</u>
As restated	<u>\$ (46,018,333)</u>	<u>\$ 31,889,568</u>	<u>\$ 6,600,243</u>	<u>\$ 340,334</u>	<u>\$ 38,830,145</u>

Fund Basis Financial Statements:

	General Fund	Community Preservation Fund	ESCO Capital Projects Fund	Nonmajor Governmental Funds	Total
	As previously reported	\$ 9,412,949	\$ 4,466,325	\$ (2,764,933)	\$ 4,163,679
Reclassify non major funds	<u>-</u>	<u>-</u>	<u>2,764,933</u>	<u>(2,764,933)</u>	<u>-</u>
As reclassified	<u>\$ 9,412,949</u>	<u>\$ 4,466,325</u>	<u>\$ -</u>	<u>\$ 1,398,746</u>	<u>\$ 15,278,020</u>

25. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the year ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting, how fiduciary activities are to be reported and when liabilities to beneficiaries must be disclosed.

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

JUNE 30, 2018
(Unaudited)

Bristol 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	10.7669%	\$33,597,870	\$ 18,124,306	185.37%	68.56%
June 30, 2017	December 31, 2016	10.7676%	\$35,947,051	\$ 17,332,286	207.40%	64.17%
June 30, 2016	December 31, 2015	10.7680%	\$36,225,148	\$ 16,827,462	215.27%	62.90%
June 30, 2015	December 31, 2014	10.6570%	\$30,449,433	\$ 16,022,954	190.04%	67.11%

Massachusetts Teachers' 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>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</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	June 30, 2017	0.365773%	\$ -	\$ 83,708,364	\$ 83,708,364	\$ 24,837,699	-	54.25%
June 30, 2017	June 30, 2016	0.366459%	\$ -	\$ 81,932,729	\$ 81,932,729	\$ 24,104,409	-	52.73%
June 30, 2016	June 30, 2015	0.368451%	\$ -	\$ 75,494,322	\$ 75,494,322	\$ 23,355,696	-	55.38%
June 30, 2015	June 30, 2014	0.369260%	\$ -	\$ 58,698,919	\$ 58,698,919	\$ 22,641,155	-	61.64%

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

See Independent Auditors' Report.

TOWN OF EASTON, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2018
(Unaudited)

Bristol County Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>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	\$ 4,054,011	\$ 4,054,011	\$ -	\$ 18,124,306	22.37%
June 30, 2017	December 31, 2016	\$ 3,751,909	\$ 3,751,909	\$ -	\$ 17,332,286	21.65%
June 30, 2016	December 31, 2015	\$ 3,494,709	\$ 3,494,709	\$ -	\$ 16,827,462	20.77%
June 30, 2015	December 31, 2014	\$ 3,093,467	\$ 3,093,467	\$ -	\$ 16,022,954	19.31%

Massachusetts Teachers' Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 4,519,169	\$ 4,519,169	\$ -	\$ 24,837,699	18.19%
June 30, 2017	June 30, 2016	\$ 4,121,140	\$ 4,121,140	\$ -	\$ 24,104,409	17.10%
June 30, 2016	June 30, 2015	\$ 3,765,313	\$ 3,765,313	\$ -	\$ 23,355,696	16.12%
June 30, 2015	June 30, 2014	\$ 3,461,369	\$ 3,461,369	\$ -	\$ 22,641,155	15.29%

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

See Independent Auditors' Report.

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

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

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 2,629,277	\$ 2,516,055
Interest on unfunded liability - time value of \$	4,632,583	4,496,303
Benefit payments, including refunds of member contributions	<u>(3,569,011)</u>	<u>(3,415,322)</u>
Net change in total OPEB liability	3,692,849	3,597,036
Total OPEB liability - beginning	<u>122,674,340</u>	<u>119,077,304</u>
Total OPEB liability - ending (a)	<u>\$ 126,367,189</u>	<u>\$ 122,674,340</u>
Plan fiduciary net position		
Contributions - employer	\$ 3,214,212	\$ 3,075,801
Net investment income	6,076	3,309
Benefit payments, including refunds of member contributions	<u>(3,214,212)</u>	<u>(3,075,801)</u>
Net change in plan fiduciary net position	6,076	3,309
Plan fiduciary net position - beginning	<u>107,793</u>	<u>104,484</u>
Plan fiduciary net position - ending (b)	<u>\$ 113,869</u>	<u>\$ 107,793</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 126,253,320</u>	<u>\$ 122,566,547</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 EASTON, 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>	<u>2017</u>
Total OPEB liability	\$ 126,367,189	\$ 122,674,640
Plan fiduciary net position	<u>113,869</u>	<u>107,793</u>
Net OPEB liability (asset)	<u>\$ 126,253,320</u>	<u>\$ 122,566,847</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.1%	0.1%
Covered employee payroll	\$ 43,505,607	\$ 42,034,403
Participating employer net OPEB liability (asset) as a percentage of covered employee payroll	290.2%	291.6%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 7,261,860	\$ 7,012,358
Contributions in relation to the actuarially determined contribution	<u>3,214,212</u>	<u>3,075,801</u>
Contribution deficiency (excess)	<u>\$ 4,047,648</u>	<u>\$ 3,936,557</u>
Covered employee payroll	\$ 42,034,403	\$ 42,034,403
Contributions as a percentage of covered employee payroll	7.6%	7.3%

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	0.00%	0.00%

*Schedules are 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.