

TOWN OF HUBBARDSTON, MASSACHUSETTS

Report on the Examination of Basic Financial Statements

For the Year Ended June 30, 2017

TOWN OF HUBBARDSTON, MASSACHUSETTS
Report on the Examination of Basic Financial Statements
For the Year Ended June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS	2
INDEPENDENT AUDITOR'S REPORT ON:	
Basic Financial Statements	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-11
BASIC FINANCIAL STATEMENTS	12
Statement of Net Position	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities.....	18
Statement of Revenues and Expenditures – Budgetary Basis – (NON-GAAP) – Budget and Actual – General Fund.....	19
Reconciliation of Revenues and Expenditures from Budgetary Basis to GAAP Basis	20
Statement of Fiduciary Net Position – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	22
Notes to the Financial Statements	23-46
REQUIRED SUPPLEMENTARY INFORMATION	47
Pension Plan Schedules	48-49
SUPPLEMENTARY SCHEDULE	50
Schedule of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds.....	51-52

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Hubbardston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hubbardston, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Hubbardston, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hubbardston, Massachusetts, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan schedules as listed on the table of contents 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hubbardston, Massachusetts' basic financial statements. The Supplementary Schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

June 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Hubbardston (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Town's financial performance.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$16,674,112 (Net Position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded its liabilities by \$16,660,704 or an increase of \$13,408 (.1%).
- At the close of the current fiscal year, the Town's governmental funds reported total ending fund balance of \$3,048,933, a decrease of \$271,241 (8%) in comparison with prior year.
- The General Fund's total fund balance decreased \$226,593 (12%) to \$1,644,775. The ending fund balance is 19% of revenues and transfers in and 19% of expenditures and transfers out.
- Total liabilities of the Town increased by \$178,646 (4%) to \$5,152,808 during the fiscal year. This was mainly attributed to an increase in the net pension liability of \$525,858 and a net decrease in bonds payable of \$320,078.
- The Town had free cash certified by the Department of Revenue in the amount of \$669,531. The key factors that attributed to the free cash amount for fiscal year 2017 were unexpended/unencumbered appropriations of \$89,250, excess over budget state and local receipts of \$1,830, excess over budget other financing sources \$105,060 and prior year free cash not appropriated of \$419,550.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all assets, deferred outflows of resources, liabilities and inflows of resources with the net difference between them 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation 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, employee benefits and insurance, state assessments and interest. The Town does not have any operations that are classified as business-type 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 two categories: governmental funds and fiduciary funds.

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

The Town of Hubbardston adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the 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 the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Highlights

Statement of Net Position Highlights

	Governmental Activities		
	2017	2016	Change
Assets:			
Current assets	\$ 4,514,284	\$ 4,743,678	\$ (229,394)
Capital assets	16,498,941	16,308,359	190,582
Total assets	21,013,225	21,052,037	(38,812)
Deferred Outflows of Resources:			
Deferred outflows related to pensions	841,634	582,829	258,805
Liabilities:			
Current liabilities (excluding debt and lease)	246,286	279,579	(33,293)
Current debt and lease	240,078	320,078	(80,000)
Noncurrent liabilities (excluding debt)	3,751,444	3,219,427	532,017
Noncurrent debt	915,000	1,155,078	(240,078)
Total liabilities	5,152,808	4,974,162	178,646
Deferred Inflows of Resources:			
Deferred inflows related to pensions	27,939	-	27,939
Net Position:			
Net Investment in Capital Assets	15,343,863	14,833,203	510,660
Restricted	1,766,108	1,829,903	(63,795)
Unrestricted	(435,859)	(2,402)	(433,457)
Total net position	\$ 16,674,112	\$ 16,660,704	\$ 13,408

Financial Highlights

Statement of Activities Highlights

	Governmental Activities		
	2017	2016	Change
Program Revenues:			
Charges for services	\$ 720,499	\$ 578,145	\$ 142,354
Operating grants and contributions	345,320	186,112	159,208
Capital grants and contributions	1,156,014	361,498	794,516
General Revenues:			
Property taxes	6,796,138	6,293,899	502,239
Motor vehicle and other excise taxes	621,803	633,242	(11,439)
Payments in lieu of taxes	333,287	350,542	(17,255)
Penalties and interest on taxes	23,997	30,830	(6,833)
Nonrestricted grants	576,403	505,375	71,028
Unrestricted investment income	9,509	20,817	(11,308)
Total revenues	10,582,970	8,960,460	1,622,510
Expenses:			
General government	717,035	777,673	(60,638)
Public safety	1,617,161	1,463,320	153,841
Public works	2,025,520	2,015,117	10,403
Education	5,080,162	4,729,954	350,208
Health and human services	154,997	88,147	66,850
Culture and recreation	105,655	87,418	18,237
Employee benefits and insurance	808,796	793,895	14,901
State assessments	16,459	18,844	(2,385)
Interest	45,507	48,028	(2,521)
Total expenses	10,571,292	10,022,396	548,896
Contributions to Permanent Funds	1,730	1,760	(30)
Change in net position	13,408	(1,060,176)	1,073,584
Net position - beginning of year	16,660,704	17,720,880	(1,060,176)
Net position - end of year	\$ 16,674,112	\$ 16,660,704	\$ 13,408

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$16,674,112 at the close of fiscal year 2017.

Net position of \$15,343,863 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position \$1,766,108, represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$435,859).

At the end of the current fiscal year, the Town is able to report positive balances in two categories of net position and a negative balance in the unrestricted category in the governmental activities and for the government as a whole. The unrestricted governmental activities and government as a whole resulted in a negative balance mainly due to the accrual of the net pension liabilities that are required under GASB to be recognized in the Town's financial statements. This liability is presented on the statement of net position.

The governmental activities net position increased by \$13,408 (.1%) during the current fiscal year. The key elements of the increase in net position for fiscal year 2017 was attributed to increases in the acquisition of \$1,698,940 in new capital assets exceeding the depreciation expense (normally spread out over the useful life of the asset) for the year of \$1,508,358, in the net debt liability of \$320,078 and from the net changes in deferred outflow/(inflow) of resources related to pensions of \$230,866; and a decrease as a result of this year's change in the net pension liability of \$525,858.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3,048,933 a decrease of \$271,241 (8%) in comparison with the prior year.

Breakdown of the governmental fund balances are as follows:

- Non-spendable fund balance – \$158,607 (5%).
- Restricted fund balance – \$1,245,551 (41%).
- Assigned fund balance – \$309,773 (10%).
- Unassigned fund balance – \$1,335,002 (44%).

At the end of the fiscal year, the *General Fund* reported a fund balance of \$1,644,775 decreasing \$226,593 (12%) from the prior year. Of the \$1,644,775, the unassigned amount is \$1,335,002 (81%) and the assigned amount is \$309,773 (19%). General fund revenues were \$257,895 (3%) more than the prior fiscal year and expenditures also increased by \$577,972 (7%). Other activity in the General Fund consisted of net transfers in from other funds of \$7,440.

The main components of the increase in general fund revenues was related to an increase in property taxes in the amount of \$451,7888 (7%) and a decrease in other revenues of \$210,000 (100%) from the prior year.

The major changes with the general fund expenditures from the prior fiscal year were as follows:

- Decrease in General government expenditures of \$75,644 (12%).
- Increase in Public safety expenditures of \$295,350 (29%); mainly for the purchase of an ambulance.
- Increase in Education expenditures \$355,208 (8%).

At the end of the fiscal year, the *Nonmajor Governmental Funds* reported a fund balance of \$1,404,158 decreasing \$44,648 (3%) from the prior year. The decrease is attributed to costs exceeding revenues by \$37,208 and net transfers to the general fund of \$7,440. The fund balance is reported as nonspendable of \$158,607 (11%) and restricted of \$1,245,551 (89%). Both the revenues and expenditures increased as a result of an estimated \$1.16 million in road infrastructure improvements from State grants.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2017 was \$8,812,675. This was an increase of \$75,491 (1%) over the previous year's budget.

There was a decrease of \$203,094 between the total original budget and the total final amended budget. The change is attributed to votes at the special town meeting in August 2016 and June 2017 for various budget operating line items.

General fund expenditures were less than budgeted by \$180,127. Of the \$180,127 in under budget expenditures \$90,883 has been carried over to fiscal year 2018.

There were negative variances in property taxes of \$91,007, in payments in lieu of taxes of \$16,713 and in interest on taxes of \$6,803 as actual receipts did not meet budget expectations. There was also a negative variance in investment income of \$781 as a result of the current economy.

A negative variance exists in public works of \$26,994 as the actual expenses exceeded the budget mainly as a result of higher than anticipated snow and ice clearing activities during the winter season. In addition, there is a negative variance in state assessments of \$380 due to a lower assessment in the registry of motor vehicles non-renewal surcharges than the actual payments.

Overall the variance with the final budget was a positive \$66 consisting of a revenue deficit of \$89,178 and an appropriation surplus of \$89,244.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities amounts to \$16,498,941.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds included the following:

- Police vehicle purchases for \$57,812.
- Fire Department water tank purchase for \$19,995.
- Fire Department ambulance and equipment purchases for \$249,506.
- Road infrastructure improvements of \$1,156,949.
- New Senior Center construction for \$214,679.

Debt Administration. The Town's outstanding governmental debt, as of June 30, 2017, totaled \$1,155,078, of which \$165,078 is for various departmental vehicles and \$990,000 for road infrastructure improvements.

Please refer to notes 3D and 3F for further discussion of the major capital and debt activity.

Next Year's Annual Town Meeting

The Town of Hubbardston operates under the "Open Meeting" concept where each voter has an equal vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2017 do not reflect the fiscal year 2018 Town Meeting action with exceptions of the free cash and appropriations amounts voted.

The Annual Town Meeting on June 6, 2017 authorized a fiscal year 2018 operating and capital budget as follows:

From the tax levy		\$	8,712,866
From Other Available Funds:			
General Fund:			
Unassigned fund balance:			
Free cash	\$	218,890	
Appropriations		16,080	234,970
Non-major Governmental Funds:			
Community preservation fund			57,694
		\$	<u>9,005,530</u>

Requests for Information

This financial report is designed to provide a general overview of the Town of Hubbardston'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 the Town Accountant, Town Hall, 7 Main Street, Unit 11, Hubbardston, Massachusetts.

BASIC FINANCIAL STATEMENTS

TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government
	Governmental
	Activities
<hr/>	
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 2,255,763
Investments	960,350
Receivables, net of allowance for uncollectibles:	
Property Taxes	292,381
Tax Liens and Possessions	324,079
Excise Taxes	76,499
Departmental	86,035
Other	100,000
Due from Other Governments	419,177
Total current assets	<u>4,514,284</u>
NONCURRENT:	
Capital Assets, net of accumulated Depreciation:	
Nondepreciable	2,799,414
Depreciable	<u>13,699,527</u>
Total noncurrent assets	<u>16,498,941</u>
Total Assets	<u><u>21,013,225</u></u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	<u>841,634</u>
 LIABILITIES	
CURRENT:	
Warrants Payable	165,046
Accrued Payroll	54,607
Payroll Withholdings	13,351
Accrued Interest	4,402
Other	380
Landfill Closure	8,500
Bonds Payable	<u>240,078</u>
Total current liabilities	<u>486,364</u>
NONCURRENT:	
Compensated Absences	28,967
Landfill Closure	34,000
Net Pension Liability	3,688,477
Bonds Payable	<u>915,000</u>
Total noncurrent liabilities	<u>4,666,444</u>
Total Liabilities	<u><u>5,152,808</u></u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	<u>27,939</u>
 NET POSITION	
Net Investment in Capital Assets	15,343,863
Restricted for:	
Capital Projects	34,213
Federal & State Grants	502,620
Permanent Funds:	
Nonexpendable	158,607
Expendable	189,326
Community Preservation	338,839
Other Purposes	542,503
Unrestricted	<u>(435,859)</u>
Total Net Position	<u><u>\$ 16,674,112</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Program Revenues				Net (Expenses) Revenues and and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	<u>Primary Governmental Activities</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 717,035	\$ 86,202	\$ 243,569	\$ -	\$ (387,264)
Public Safety	1,617,161	569,230	18,885	-	(1,029,046)
Public Works	2,025,520	7,205	-	1,111,014	(907,301)
Education	5,080,162	-	35	-	(5,080,127)
Health and Human Services	154,997	56,754	66,285	45,000	13,042
Culture and Recreation	105,655	1,108	16,546	-	(88,001)
Employee Benefits and Insurance	808,796	-	-	-	(808,796)
State Assessments	16,459	-	-	-	(16,459)
Interest	45,507	-	-	-	(45,507)
Total Governmental Activities	10,571,292	720,499	345,320	1,156,014	(8,349,459)
Total Primary Government	\$ 10,571,292	\$ 720,499	\$ 345,320	\$ 1,156,014	(8,349,459)
General Revenues:					
Property taxes					6,796,138
Motor vehicle excise and other taxes					621,803
Payments in lieu of taxes					333,287
Penalties & Interest on taxes					23,997
Grants & Contributions not restricted to specific programs					576,403
Unrestricted Investment Income					9,509
Contributions to Permanent Funds					<u>1,730</u>
Total General Revenues and Contributions					<u>8,362,867</u>
Change in Net Position					13,408
Net Position:					
Beginning of year					<u>16,660,704</u>
End of year					<u>\$ 16,674,112</u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 1,203,058	\$ 1,052,705	\$ 2,255,763
Investments	599,801	360,549	960,350
Receivables, net of allowance for uncollectibles:			
Property Taxes	290,802	1,579	292,381
Tax Liens and Possessions	323,029	1,050	324,079
Excise Taxes	76,499	-	76,499
Departmental	57,982	28,053	86,035
Other	100,000	-	100,000
Due from Other Governments	78,708	340,469	419,177
Total Assets	\$ 2,729,879	\$ 1,784,405	\$ 4,514,284
Liabilities:			
Warrants Payable	\$ 161,077	\$ 3,969	\$ 165,046
Accrued Payroll	40,279	14,328	54,607
Payroll Withholdings	13,351	-	13,351
Other	380	-	380
Total Liabilities	215,087	18,297	233,384
Deferred Inflows of Resources:			
Unavailable Revenue	870,017	361,950	1,231,967
Fund Balance:			
Nonspendable	-	158,607	158,607
Restricted	-	1,245,551	1,245,551
Assigned	309,773	-	309,773
Unassigned	1,335,002	-	1,335,002
Total Fund Balance	1,644,775	1,404,158	3,048,933
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,729,879	\$ 1,784,405	\$ 4,514,284

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$ 6,658,537	\$ 56,562	\$ 6,715,099
Intergovernmental	550,683	1,400,750	1,951,433
Excise and Other Taxes	626,604	-	626,604
Payment in Lieu of Taxes	333,287	-	333,287
Charges for Services	-	549,196	549,196
Licenses, Permits, Fees	195,898	-	195,898
Interest on Taxes	23,997	-	23,997
Investment Income	9,509	1,178	10,687
Gifts and Donations	-	46,385	46,385
Other	-	57,796	57,796
Total Revenues	8,398,515	2,111,867	10,510,382
Expenditures:			
Current:			
General Government	569,202	136,001	705,203
Public Safety	1,301,373	479,866	1,781,239
Public Works	773,613	1,185,244	1,958,857
Education	4,966,683	-	4,966,683
Health and Human Services	85,344	292,832	378,176
Culture and Recreation	75,263	19,532	94,795
Employee Benefits and Insurance	513,804	-	513,804
State Assessments	16,459	-	16,459
Debt Service:			
Principal	285,078	35,000	320,078
Interest	45,729	600	46,329
Total Expenditures	8,632,548	2,149,075	10,781,623
Excess of Revenues Over (Under) Expenditures	(234,033)	(37,208)	(271,241)
Excess of Revenues Over			
Operating Transfers In	105,059	97,619	202,678
Operating Transfers Out	(97,619)	(105,059)	(202,678)
Total Other Financing Sources (Uses)	7,440	(7,440)	-
Net Change in Fund Balances	(226,593)	(44,648)	(271,241)
Fund Balances, Beginning of Year	1,871,368	1,448,806	3,320,174
Fund Balances, End of Year	\$ 1,644,775	\$ 1,404,158	\$ 3,048,933

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
For the Year Ended June 30, 2017

Total Governmental Fund Balances			\$ 3,048,933
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.			16,498,941
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.			1,231,967
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.			813,695
Long Term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:			
Bonds and Leases Payable	\$ (1,155,078)		
Landfill Closure	(42,500)		
Net Pension Liability	(3,688,477)		
Compensated Absences	(28,967)	(4,915,022)	
Net Position of Governmental Activities			<u><u>\$ 16,674,112</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, 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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (271,241)

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 are reported as depreciation expense:

Capital Outlay Purchases	\$ 1,698,940	
Depreciation	<u>(1,508,358)</u>	190,582

Revenue 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. 74,318

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:

Repayment of Debt and Lease Principal		320,078
---------------------------------------	--	---------

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 governmental funds:

Net Change in Compensated Absences	(14,659)	
Net Change in Accrued Interest on Long-Term Debt	822	
Net Change in Net Pension Liability	(525,858)	
Net Change in Deferred Outflow/(Inflow) of Resources Related to Pensions	230,866	
Net Change in Landfill Closure	<u>8,500</u>	<u>(300,329)</u>

Change in Net Position of Governmental Activities \$ 13,408

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
(NON-GAAP) - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts					
	Amounts Carried Forward from Prior Year	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
Revenues:						
Property Taxes	\$ -	6,746,044	6,746,044	6,655,037	\$ -	\$ (91,007)
Intergovernmental	-	532,259	532,259	550,683	-	18,424
Excise and Other Taxes	-	620,000	620,000	626,604	-	6,604
Payment in Lieu of Taxes	-	350,000	350,000	333,287	-	(16,713)
Licenses, Permits, Fees	-	194,800	194,800	195,898	-	1,098
Interest on Taxes	-	30,800	30,800	23,997	-	(6,803)
Investment Income	-	5,000	5,000	4,219	-	(781)
Total Revenues	-	8,478,903	8,478,903	8,389,725	-	(89,178)
Expenditures:						
Current:						
General Government	102,770	611,101	689,583	569,202	67,394	52,987
Public Safety	55,901	1,267,841	1,339,090	1,301,373	10,878	26,839
Public Works	839	758,875	746,979	773,613	360	(26,994)
Education	1,260	4,969,759	4,971,019	4,966,683	2,115	2,221
Health and Human Services	-	80,929	100,929	85,344	4,980	10,605
Culture and Recreation	1,207	84,650	85,857	75,263	4,576	6,018
Employee Benefits and Insurance	-	533,212	530,752	513,804	-	16,948
State Assessments	-	16,079	16,079	16,459	-	(380)
Debt Service:						
Principal	169,219	285,078	285,234	285,078	156	-
Interest	36,482	40,567	47,153	45,729	424	1,000
Total Expenditures	367,678	8,648,091	8,812,675	8,632,548	90,883	89,244
Excess of Revenues Over (Under) Expenditures	(367,678)	(169,188)	(333,772)	(242,823)	(90,883)	66
Other Financing Sources (Uses):						
Operating Transfers In	-	-	34,556	139,615	-	105,059
Operating Transfers out	-	(97,619)	(316,669)	(316,669)	-	-
Total Other Financing Sources (Uses)	-	(97,619)	(282,113)	(177,054)	-	105,059
Net Change in Budgetary Fund Balance	(367,678)	(266,807)	(615,885)	(419,877)	(90,883)	\$ 105,125
Other Budgetary Items:						
Free Cash and Other Reserves	-	266,807	248,207			
Prior Year Encumbrances	367,678	-	367,678			
Total Other Budgetary Items	367,678	266,807	615,885			
NET BUDGET	\$ -	\$ -	\$ -			

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2017

	<u>Revenues</u>	<u>Expenditures</u>
Reported on a Budgetary Basis	\$ 8,389,725	\$ 8,632,548
<u>Adjustments:</u>		
Activity for Stabilization Fund Recorded in the General Fund for GAAP Purposes	5,290	
Net Decrease in Revenue from Recording 60-Day Receipts	(2,000)	-
Net Increase in Revenue from Recording Refund Taxes Payable	5,500	-
Reported on a GAAP Basis	<u>\$ 8,398,515</u>	<u>\$ 8,632,548</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 492,752
Investments	164,224	-
Total Assets	164,224	492,752
LIABILITIES		
Warrants Payable	-	4
Due to Others	-	22,159
Escrows and Deposits	-	470,589
Total Liabilities	-	492,752
NET POSITION		
Held in Trust for Other Purposes	\$ 164,224	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF HUBBARDSTON, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Private Purpose Trust Funds
Additions	
Investment Income	\$ 1,120
Total Additions	<u>1,120</u>
Deductions:	
Educational Scholarships	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	<u>1,120</u>
Net Position at Beginning of Year	<u>163,104</u>
Net Position at End of Year	<u><u>\$ 164,224</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a political subdivision of the Commonwealth of Massachusetts located in Worcester County. The Town was incorporated in 1767 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2017, it was determined that no entities met the required GASB-39 and GASB-61 criteria for component units.

The Town is responsible for electing the governing board and/or committee members of the Quabbin Regional School District and the Montachusett Regional Vocational Technical School District. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board and/or committee members. Audited financial statements are available from the respective organizations. Descriptions of the related organizations follow:

Quabbin Regional School District – The regional school district, created in 1967, made up of the Towns of Barre, Hardwick, Hubbardston, New Braintree and Oakham to serve the educational needs of students in grades K through 12. The regional school district is a separate entity under the Commonwealth of Massachusetts. The District is governed by a board composed of representatives of member Towns. The District is responsible for both the operating and capital costs related to the school and operates independently from the Town.

Montachusett Regional Vocational Technical School District - A regional school district, created in 1971, made up of the Towns of Ashburnham, Ashby, Athol, Barre, Fitchburg, Gardner, Harvard, Holden, Hubbardston, Lunenburg, Petersham, Phillipston, Princeton, Royalston, Sterling, Templeton, Westminster and Winchendon to serve the educational needs of students in grades 9 through 12. The regional school district is a separate entity under the Commonwealth of Massachusetts. The District is governed by a twenty-two (22)-member board composed of representatives of member Towns. The District is responsible for both the operating and capital costs related to the school and operates independently from the Town.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements (e.g., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

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

Fund financial statements

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

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and change in net position.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

and

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

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

Fiduciary funds are reported by fund type.

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, as are the fiduciary fund financial statements. Revenues are recognized 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.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported.

Fund financial statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, 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 thereafter to be used to pay current liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Town reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The non-major governmental fund consists of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Trust Funds).

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

Additionally, the Town reports the following fund types:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The Town maintains a cash and investment pool 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 cash equivalents".

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

E. Investments

The Town maintains investments according to Massachusetts General Laws and adopted policies. Investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.

Level 3 inputs are unobservable for the asset or liability.

Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

Additional investment disclosures are presented in these Notes.

F. Receivables

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

Property Taxes, Deferred Property Taxes and Tax Liens

Property taxes are based on assessments as of January 1, 2016 and include betterments, special assessments and liens. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The Town has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The Town mailed preliminary tax bills for the fiscal year 2017 on June 30, 2016, that were due on August 1, 2016 and November 1, 2016 and actual bills on December 28, 2016 that were due on February 1, 2017 and May 1, 2017, respectively.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town.

The legal levy limit under Proposition 2 1/2 for fiscal year 2017 is as follows:

Legal Levy Limit Under Proposition	
2 1/2 for fiscal year 2017	\$ 6,518,127
Add: Debt Exclusion	21,978
Add: Capital Expenditure Exclusion	250,000
Maximum Allowable Levy	<u>\$ 6,790,105</u>

The total amount raised by taxation was \$6,787,098.

Excise Taxes

Excise taxes consist of motor vehicle excise. Excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles.

The tax calculation is the fair value of the vehicle multiplied by the \$25 per \$1,000 of value.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Departmental

Departmental receivables consist of street betterments in the general fund. In the nonmajor governmental funds the departmental receivables are for ambulance fees and Title V septic loan repayments.

The allowance for uncollectibles relating to ambulance fees are based upon historical trends. The other departmental receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

Other

Other receivable consists of due from a former employee due to misappropriation of assets related to the collection of real estate, personal property and excise taxes. An independent review was performed and determined an estimated loss of revenue. The estimated restitution is identified as the other receivable.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

The allowance for uncollectible accounts is estimated based on specific account analysis.

Due from Other Governments

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

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the government wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

Capital assets, excluding infrastructure assets, are defined by the Town as assets with an initial individual cost of at least \$5,000 and an estimated useful life in excess of three years. Infrastructure assets are capitalized when original cost exceeds \$25,000.

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

Capital Asset Type	Years
Buildings and renovations	15-50
Machinery, equipment and other	3-20
Infrastructure	40

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

H. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities.

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Outflows/Inflows of Resources

Government-wide financial statements

The government-wide financial statements *Statement of Net Position* includes a separate section, listed below total assets, for *deferred outflows of resources*. This represents the usage of net position applicable for future period(s) and will not be recognized as expenditures until the future period to which it applies. Currently, the only item in this category is *deferred outflows related to pensions*.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the only item in this category is *deferred inflows related to pensions*.

Fund financial statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the Town's property, excise and other taxes; departmental receipts, other receipts and intergovernmental grants. These amounts are deferred and are recognized as an inflow of resources in the period that the amounts become available.

J. Net Position and Fund Balances

In the Government-Wide financial statements, the difference between the Town's total assets, deferred outflows of resources, total liabilities and deferred inflows of resources represents net position. Net position displays three components – net investment in capital assets, restricted (distinguished between major categories of restrictions), and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position has been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" represents amounts restricted by the federal and state government for various programs.

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

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

"*Community Preservation*" represents amounts that are restricted for the preservation of open space, historical resources and community housing.

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

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which is the Town meeting action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned fund balance. This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and Town board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

K. Long-term Debt

Long-term debt is reported as liabilities in the government-wide statement of net position.

The face amount of governmental funds long-term debt is reported as other financing sources.

L. Compensated Absences

Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Town has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration limits specified in the Town's termination policy.

M. Pension Benefits

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 Worcester Regional Retirement System (the System) is provided. Additions to and deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the system. For this purpose, benefit payments (including refunds of employee contributions), are recognized when due and payable according with the benefit terms. Investments are reported at their fair value.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

N. Post-Retirement Benefits

The Town has not elected the provisions of M.G.L. Chapter 32 that pertains to providing other post-employment benefits besides pension benefits to retirees. Therefore, the Town does not provide group health insurance for retired employees or their survivors and thus does not provide any cost of the health insurance plan for retirees.

O. Use of Estimates

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

P. Total Column

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

At the Annual Town Meeting, the Board of Selectmen and Finance Committee present an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the 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 department 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 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.

The Town must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non-property tax revenues estimated to be received, including available funds.

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

Encumbrances of unexpended budgetary balances at year-end (continuing appropriations) do not constitute liabilities and, therefore, are presented in the governmental funds as a reservation of fund balance. Budgeted amounts for the General Fund are as originally adopted or as amended by Town vote, including continuing appropriations at the beginning of the year and excluding continuing appropriations at the year-end.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Massachusetts law requires cities and towns to provide a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

For fiscal year 2017, the Town incurred a final budget deficit of \$615,885 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unassigned fund balance:	
Free cash votes	\$ 248,207
Prior year's encumbrances	367,678
	<hr/>
	\$ 615,885
	<hr/>

3. DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2017 were \$2,719,410. Of these, none are exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less. The MMDT is an external investment pool that meets the criteria established under GASB Statement No. 79 to report its investments at amortized cost.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

As of June 30, 2017, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities:			
U. S. treasury obligations	\$ 149,571	\$ -	\$ 149,571
U. S. government agencies	257,912	-	257,912
Bond mutual funds	59,449	59,449	-
Corporate bonds	185,913	149,982	35,931
Money market mutual fund	25,764	25,764	-
	678,609	\$ 235,195	\$ 443,414
Other Investments:			
Certificate of deposits	295,543		
Equity securities - domestic (stocks)	132,928		
MMDT	17,808		
	<u>\$ 1,124,888</u>		

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's \$1,124,888 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name. The Town has no policy on custodial credit risk.

Interest Rate Risk

The Town does 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.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Credit Risk

The Town's exposure to credit risk as of June 30, 2017 is as follows:

Related Debt Instruments	Fair Value
<u>Moody's Quality Ratings</u>	
<i>U. S. Treasury Obligations:</i>	
Aaa	\$ 149,571
<i>U. S. Government Agencies:</i>	
Aaa	257,912
<i>Corporate Bonds:</i>	
A1	74,993
A2	44,985
Baa1	36,006
Baa3	29,929
<i>Bond Mutual Funds:</i>	
Not rated	59,449
<i>Money Market Mutual Funds:</i>	
Not rated	25,764
	<u>\$ 678,609</u>

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in one issuer. More than 5 percent of the Town's total investments is in the Federal Home Loan Mortgage Corporation amounting to 22.93% of the Town's total investments.

Fair Value of Investments

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

The Town has the following recurring fair value measurements as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U. S. treasury obligations	\$ 149,571	\$ 149,571	\$ -	\$ -
U. S. government agencies	257,912	257,912	-	-
Certificates of deposit	295,543	295,543	-	-
Equity securities - domestic	132,928	132,928	-	-
Money market mutual fund	25,764	25,764	-	-
Bond mutual funds	59,449	-	59,449	-
Corporate bonds	185,913	-	185,913	-
	<u>1,107,080</u>	<u>\$ 861,718</u>	<u>\$ 245,362</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
External Investment Pools (MMDT)	<u>17,808</u>			
Total Investments	<u>\$ 1,124,888</u>			

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 296,981	\$ (4,600)	\$ 292,381
Tax liens and possessions	324,079	-	324,079
Excise taxes	93,806	(17,307)	76,499
Departmental	425,056	(339,021)	86,035
Other	205,277	(105,277)	100,000
Due from other governments	419,177	-	419,177
	<u>\$ 1,764,376</u>	<u>\$ (466,205)</u>	<u>\$ 1,298,171</u>

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

The composition of amounts due from other governments as of June 30, 2017 for the governmental funds is as follows:

General Fund:

Commonwealth of Massachusetts:

Department of Revenue:		
Veterans, blind and surviving spouse	\$	26,003
Department of Veterans Services:		
Veterans benefits		52,705
		<u>\$ 78,708</u>

Nonmajor Governmental Funds:

Commonwealth of Massachusetts:

Massachusetts Department of Transportation		340,469
		<u>\$ 419,177</u>

C. Deferred Inflows of Resources – Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

General Fund:

Property taxes	\$	259,802
Tax liens and possessions		323,029
Excise taxes		76,499
Departmental		57,982
Other		100,000
Due from other governments		<u>52,705</u>
		<u>\$ 870,017</u>

Nonmajor Governmental Funds:

Property taxes		1,579
Tax liens and possessions		1,050
Departmental		28,053
Due from other governments		<u>331,268</u>
		<u>\$ 361,950</u>
		<u>\$ 1,231,967</u>

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

D. Capital Assets

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,264,131	\$ -	\$ -	\$ 2,264,131
Construction in progress	320,604	214,679	-	535,283
Total capital assets not being depreciated	2,584,735	214,679	-	2,799,414
Capital assets being depreciated:				
Buildings and Renovations	6,504,085	-	-	6,504,085
Machinery, equipment and other	2,736,630	327,313	(139,595)	2,924,348
Infrastructure	44,110,388	1,156,948	-	45,267,336
Total capital assets being depreciated	53,351,103	1,484,261	(139,595)	54,695,769
Less accumulated depreciation for:				
Buildings and Renovations	3,166,654	140,275	-	3,306,929
Machinery, equipment and other	1,709,283	238,428	(139,595)	1,808,116
Infrastructure	34,751,542	1,129,655	-	35,881,197
Total accumulated depreciation	39,627,479	1,508,358	(139,595)	40,996,242
Total capital assets being depreciated, net	13,723,624	(24,097)	-	13,699,527
Total governmental activities capital assets, net	\$ 16,308,359	\$ 190,582	\$ -	\$ 16,498,941

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

Governmental Activities:

General government	\$ 11,832
Public safety	151,176
Public works	1,221,011
Education	113,479
Culture and recreation	10,860
Total depreciation expense - governmental activities	<u>\$ 1,508,358</u>

E. Interfund Receivables, Payables and Transfers

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

Transfers Out:	Transfers In:		
	General fund	Nonmajor Governmental funds	Total
General fund	\$ -	\$ 97,619	\$ 97,619
Nonmajor governmental funds	105,059	-	105,059
Total transfers out	<u>\$ 105,059</u>	<u>\$ 97,619</u>	<u>\$ 202,678</u>

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

F. Long Term Debt

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 of the governmental type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2017
Inside Debt:					
Fire truck	0.52%	2/1/2007	2/1/2018	\$ 500,780	\$ 50,078
Road improvements	1.88%	4/30/2015	5/15/2023	1,395,000	990,000
Highway truck	1.88%	4/30/2015	5/15/2023	135,000	100,000
Police vehicle	1.88%	4/30/2015	5/15/2020	25,000	15,000
Total Inside Debt					<u>1,155,078</u>

Future Debt Service

The annual principal and interest payments to retire all governmental type fund general obligation long-term debt outstanding as of June 30, 2017, are as follows:

Year	Principal	Interest	Total
2018	\$ 240,078	\$ 33,674	\$ 273,752
2019	190,000	27,450	217,450
2020	185,000	21,750	206,750
2021	180,000	16,200	196,200
2022	180,000	10,800	190,800
2023	180,000	5,400	185,400
	<u>\$ 1,155,078</u>	<u>\$ 115,274</u>	<u>\$ 1,270,352</u>

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

A summary of the changes in governmental activities long term debt during the year is as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 1,475,156	\$ -	\$ 320,078	\$ 1,155,078	\$ 240,078
Landfill closure	51,000	-	8,500	42,500	8,500
Compensated absences	14,308	14,659	-	28,967	-
Net pension liability	3,162,619	525,858	-	3,688,477	-
Governmental activity					
Long-term liabilities	\$ 4,703,083	\$ 540,517	\$ 328,578	\$ 4,915,022	\$ 248,578

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws a Town may authorize indebtedness up to a limit of five percent of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2017 totaled \$1,155,078.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2017:

Equalized Valuation-Real Estate and Personal Property (2016)	\$ 417,293,300
Debt Limit: 5 % of Equalized value	20,864,665
Total Debt Outstanding	\$ 1,155,078
Less: Debt Outside Debt Limit	- 1,155,078
Inside Debt Excess Borrowing Capacity at June 30, 2017	\$ 19,709,587

Loans Authorized and Unissued -- Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Loan authorizations that have not been issued as of June 30, 2017 and are not reflected in the Town's financial statements are as follows:

Date	Town Meeting Authorized	Purpose	Amount
12/4/2007		Community Preservation Act projects	\$ 123,499
6/2/2009		Emergency ice storm cleanup	15,000
11/19/2013		Route 68 engineering	20,000
7/29/2014		Highway vehicle	5,000
			<u>\$ 163,499</u>

Overlapping Debt

The Town pays assessments, including debt service payments, to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The primary overlapping debt relates to the regional school. The following summary sets forth the long term debt of the governmental unit, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt.

	Current Year's Long Term Debt	Town's Estimated Share	Town's Estimated Indirect Debt
Quabbin Regional School District			
Green repair projects	\$ 1,050,000	23.55%	\$ 247,275
Montachusett Vocational Technical School District	<u>3,315,000</u>	2.52%	<u>83,538</u>
	<u>\$ 4,365,000</u>		<u>\$ 330,813</u>

The above debt does not reflect the Commonwealth of Massachusetts School Building Assistance grants to pay for the interest and principal on allowable costs.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

G. Fund Balances

The following is a summary of the Town's Governmental fund balances at the year ended June 30, 2017:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Permanent funds	\$ -	\$ 158,607	\$ 158,607
Restricted:			
Federal, state and local grants	-	171,352	171,352
Revolving funds	-	171,751	171,751
Community preservation act	-	336,210	336,210
Gifts and donations	-	124,355	124,355
Septic program	-	137,669	137,669
Capital projects	-	34,213	34,213
Permanent funds	-	189,326	189,326
Other	-	80,675	80,675
	-	1,245,551	1,245,551
Assigned:			
General government	67,394	-	67,394
Public safety	10,878	-	10,878
Public works	360	-	360
Education	2,115	-	2,115
Health and human services	4,980	-	4,980
Culture and recreation	4,576	-	4,576
Debt Service:			
Principal	156	-	156
Interest	424	-	424
Subsequent year's budget	218,890	-	218,890
	309,773	-	309,773
Unassigned:			
General fund	1,335,002	-	1,335,002
Total Governmental fund balances	\$ 1,644,775	\$ 1,404,158	\$ 3,048,933

H. Special Trust Funds

Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a Town at a Town meeting for any lawful purpose.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

At June 30, 2017, the balances in the stabilization funds are reported in the General Fund as unassigned fund balance consisting of the following:

General purpose stabilization fund	\$	432,783
Capital stabilization fund		<u>157,638</u>
	\$	<u><u>590,421</u></u>

4. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

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

The Town has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under the terms of the grant. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, although, based on prior experience, Town management believes such disallowances, if any, will not be material.

C. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued.

D. Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require that the Town of Hubbardston place a final cover on its landfill when closed and perform certain maintenance and monitoring functions of the landfill site for thirty (30) years after closure. The current year expenditures are reported in the General Fund. The estimated total future liability for landfill post-closure care costs is \$42,500.

This estimate is based on an independent evaluation of the cost to perform post-closure care. The actual cost of closure and post-closure care may be higher due to inflation, changes in technology, changes in estimates, or changes in landfill regulations.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

E. Pension Plan

Plan Description

The Town is a member of the Worcester Regional Retirement System (the System). The System is a cost-sharing multiple-employer public employee retirement system administered by a five-member board. Massachusetts General Laws (MGL), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers substantially all employees of its member employers. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Benefits Provided

The System provides retirement, disability, survivor and death benefits to plan members and beneficiaries. MGL Chapter 32 establishes uniform benefit and contributory requirements for all contributory public employee retirement systems (PERS). The Massachusetts PERS benefits are uniform from system to system, with a few minor exceptions. Members of the System become vested after 10 years of creditable service. 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. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) final average compensation times the member's years of creditable service prior to retirement. The percentage is based on the age of the member at retirement and his or her Group classification. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. Most employees who joined the system on or after April 2, 2012 cannot retire prior to age 60. The authority for amending these provisions rests with the Massachusetts Legislature.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost of living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's State law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

MGL Chapter 32 governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Town is required to pay into the System its share of the legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Town's proportionate share of the required contribution to the System for the year ended December 31, 2016 was \$213,907, representing 17.11% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Pension Liability

As of June 30, 2017, a reported liability of \$3,688,477 is the Town's proportionate share of the net pension liability as measured as of December 31, 2016. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. 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 members, actuarially determined. At December 31, 2016, the Town's proportional percentage was 0.4404%, which was a slight decrease from the last measurement.

Pension Expense

For the year ended June 30, 2017, the Town recognized a pension expense of \$508,898 and reported deferred outflows of resources related to pensions of \$841,634 from the differences between expected and actual experience, changes in assumption, the net difference between projected and actual investment earnings on pension plan investments and changes in allocated proportion; and deferred inflows of resources related to pensions of \$27,939 from the changes in allocated proportion.

The Town's net deferred outflows/(inflows) of resources related to pensions will be recognized in the pension expense as follows:

For years ended June 30,		
	2018	\$ 194,462
	2019	194,461
	2020	193,922
	2021	140,223
	Thereafter:	90,627
		\$ 813,695

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated December 31, 2016:

Valuation date	January 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	<i>Unfunded Actuarial Accrued Liability (UAAL):</i> Increasing dollar amount at 4.0% to reduce the UAAL to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 9.95%. <i>2002 & 2003 Early Retirement Incentive (ERI):</i> Increasing dollar amount at 4.0% to reduce the 2002 & 2003 ERI to zero on or before June 30, 2028 and the 2010 ERI to zero on or before June 30, 2022.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

Asset valuation method	The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: 80% of the gains and losses of the prior year, 60% of the gains and losses of the second prior year, 40% of the gains and losses of the third prior year, and 20% of the fourth prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value.
Inflation	3% per year
Salary increases	Group 1: 6% - 4.25%, based on service Group 4: 7% - 4.75%, based on service
Payroll growth	4% per year
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Mortality rates	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB for disabled members

Long-term Expected Rate of Return

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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	4.97%
Fixed income	22%	2.29%
Private Equity	11%	6.50%
Real Estate	10%	3.50%
Timber/Natural Resources	4%	3.00%
Hedge Funds	13%	3.48%
Other	0%	0.00%
Total	100%	

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 7.06%. The money-weighted rate of return considers the changing amounts actually invested during a period and weighs the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the pension plan investments to the ending fair value of pension plan investments.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2017

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 plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Section 22D and Section 22F of MGL Chapter 32. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity 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%. 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Town's net pension liability	\$ 4,442,814	\$ 3,688,477	\$ 3,051,692

F. Implementation Of New GASB Pronouncements

The GASB issued Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, for implementation in fiscal year 2017.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*, for implementation in fiscal year 2017.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, for implementation in fiscal year 2017.

The GASB issued Statement No. 82, *Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73*, for implementation in fiscal year 2017.

G. Future GASB Pronouncements

Management is currently assessing the impact the implementation of the following pronouncements will have on the basic financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, for implementation in fiscal year 2018.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, for implementation in fiscal year 2018.

The GASB issued Statement No. 87, *Leases*, for implementation in fiscal year 2021.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HUBBARDSTON, MASSACHUSETTS
Required Supplementary Information
Pension Plan Schedules
Worcester Regional Contributory Retirement System
For the Year Ended June 30, 2017

The Schedule of Proportionate Share of the Net Pension Liability represents multiyear trend information relating to the Town's proportion of the net pension liability and related ratios.

Schedule of the Town's Proportionate Share of the Net pension Liability:

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Town's proportion of the net pension liability (asset)	0.4404%	0.4456%	0.3830%
Town's proportionate share of the net pension liability (asset)	\$ 3,688,477	\$ 3,162,619	\$ 2,278,991
Town's covered employee payroll	\$ 1,250,143	\$ 1,195,841	\$ 1,149,847
Net pension liability percentage of covered-employee payroll	295.04%	264.47%	198.20%
Plan fiduciary net position as a percentage of the total pension liability	42.00%	44.52%	47.94%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

TOWN OF HUBBARDSTON, MASSACHUSETTS
Required Supplementary Information
Pension Plan Schedules
Worcester Regional Contributory Retirement System
For the Year Ended June 30, 2017

The Schedule of the Employer Contributions presents multiyear trend information on the Town's required and actual payments to the pension plan and related ratios.

Schedule of the Town's Contributions:

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially determined contribution	\$ 213,907	\$ 202,444	\$ 151,350
Less: Contributions in relation to the actuarially determined contribution	<u>(213,907)</u>	<u>(202,444)</u>	<u>(151,350)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Town's covered employee payroll	\$ 1,250,143	\$ 1,195,841	\$ 1,149,847
Contributions percentage of covered-employee payroll	17.11%	16.93%	13.16%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

SUPPLEMENTARY SCHEDULE

TOWN OF HUBBARDSTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Fund Balances July 1, 2016	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2017
Special Revenue:					
Federal and State Grants:					
Arts Lottery Cultural Council	\$ 4,810	\$ 4,528	\$ 5,025	\$ -	\$ 4,313
Council on Aging Grants	-	6,480	6,382	-	98
Economic Development Grant	-	5,000	-	-	5,000
Extended Polling Hours	-	936	936	-	-
Financial Planning Grant	24,750	-	9,000	(15,750)	-
Highway grants	1,228	1,158,597	1,156,950	(2,875)	-
Library Grants	8,073	5,617	4,962	-	8,728
Public Safety Grants	24,162	10,525	13,077	-	21,610
School Grants	-	154,250	70,000	15,750	100,000
Senior Center Grants	201,282	45,000	214,679	-	31,603
Other:					
Ambulance	42,302	219,230	236,967	(24,565)	-
Board of Health Revolving	9,267	5,462	9,654	-	5,075
Board of Health Vaccine	18,783	36	-	-	18,819
Community Preservation Fund	308,602	66,408	38,800	-	336,210
Conservation Commission	3,553	430	583	-	3,400
Council on Aging MART Revolving	16,160	29,742	27,760	-	18,142
Demolition Revolving	3,900	-	-	-	3,900
Dog Fees	3,375	2,970	1,788	-	4,557
Dog Officer	231	-	-	-	231
Fire Department Burning Permits	5,010	3,420	6,904	-	1,526
Gifts and Donations	142,480	46,385	64,510	-	124,355
Inspector Revolving	31,959	55,732	28,524	-	59,167
Insurance Proceeds	10,928	2,787	3,069	-	10,646
Law Enforcement Trust	5,420	-	174	-	5,246
Library Dog Fund	1,084	733	-	-	1,817
PEG Cable Access Grant	31,988	53,279	15,237	-	70,030
Planning Board Revolving	6,801	15,972	9,051	-	13,722
Total Special Revenue Funds Page 51	\$ 906,148	\$ 1,893,519	\$ 1,924,032	\$ (27,440)	\$ 848,195

TOWN OF HUBBARDSTON, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Fund Balances July 1, 2016	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2017
Continued from Page 51	\$ 906,148	\$ 1,893,519	\$ 1,924,032	\$ (27,440)	\$ 848,195
Special Revenue (continued):					
Other (continued):					
Police Detail Revolving	4,065	189,195	187,352	-	5,908
Recreation Revolving	376	340	266	-	450
Recycling Revolving	5,291	3,283	2,422	-	6,152
Sale of Lots and Graves	5,090	3,720	2,340	-	6,470
Septic Repair Program	119,931	17,738	-	-	137,669
Wetland Protection	16,945	1,192	969	-	17,168
Zoning Board of Appeals	9	-	9	-	-
Total Special Revenue Funds	1,057,855	2,108,987	2,117,390	(27,440)	1,022,012
Capital Projects:					
Roadway designs and engineering	42,508	-	28,295	20,000	34,213
Perpetual Permanent Funds:					
Cemetery Perpetual Care	132,361	1,730	-	100	134,191
Library Funds	24,416	-	-	-	24,416
Total Perpetual Permanent Funds	156,777	1,730	-	100	158,607
Permanent Funds:					
Cemetery Perpetual Care	121,310	799	-	(100)	122,009
Library Funds	40,310	208	-	-	40,518
Hubbardston Community Park	15,245	79	3,390	-	11,934
Other	14,801	64	-	-	14,865
Total Permanent Funds	191,666	1,150	3,390	(100)	189,326
Total - Non-Major Governmental Funds	\$ 1,448,806	\$ 2,111,867	\$ 2,149,075	\$ (7,440)	\$ 1,404,158