

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Report on the Examination of Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Report on the Examination of Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**TABLE OF CONTENTS**

|   | <u>Page</u> |
|---|-------------|
| <b>TABLE OF CONTENTS</b> .....  | 2           |
| <b>INDEPENDENT AUDITOR'S REPORT ON:</b>   |             |
| Basic Financial Statements .....  | 3-4         |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....   | 5-11        |
| <b>BASIC FINANCIAL STATEMENTS</b> .....   | 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<br>Balances to the Statement of Net Position .....                              | 17          |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund<br>Balances of Government Funds to the Statement of Activities..... | 18          |
| Statement of Revenues and Expenditures – Budgetary Basis – (NON-GAAP) –<br>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          |
| <b>Notes to the Financial Statements</b> .....  | 23-46       |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b> .....   | 47          |
| Pension Plan Schedules .....  | 48-49       |
| <b>SUPPLEMENTARY SCHEDULE</b> .....   | 50          |
| Schedule of Revenues, Expenditures and Changes in Fund Balances –<br>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, 2018, 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, 2018, 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

July 10, 2019

## **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, 2018. 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 \$15,445,088 (Net Position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded its liabilities by \$16,674,112 or a decrease of \$1,229,024 (7%).
- At the close of the current fiscal year, the Town's governmental funds reported total ending fund balance of \$2,862,042, a decrease of \$186,891 (6%) in comparison with the prior year.
- The General Fund's total fund balance decreased \$71,618 (4%) to \$1,573,157. The ending fund balance is 18% of revenues and 18% of expenditures and transfers out.
- Total liabilities of the Town decreased by \$8,583 (.2%) to \$5,144,225 during the fiscal year. This was mainly attributed to increases in bond anticipation notes payable of \$150,000 and in the net pension liability of \$158,927 and decreases in warrants payable of \$71,492 and in bonds payable of \$240,078.
- The Town had free cash certified by the Department of Revenue in the amount of \$401,513. The key factors that attributed to the free cash amount for fiscal year 2018 were unexpended/unencumbered appropriations of \$214,900, excess over budget state and local receipts of \$106,900 and prior year free cash not appropriated of \$105,000.

### 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 |                      |                       |
|---|-------------------------|----------------------|-----------------------|
|   | 2018                    | 2017                 | Change                |
| <b>Assets:</b>                          |                         |                      |                       |
| Current assets                          | \$ 4,340,974            | \$ 4,514,284         | \$ (173,310)          |
| Capital assets                          | 15,630,086              | 16,498,941           | (868,855)             |
| <b>Total assets</b>                     | <b>19,971,060</b>       | <b>21,013,225</b>    | <b>(1,042,165)</b>    |
| <b>Deferred Outflows of Resources:</b>  |                         |                      |                       |
| Deferred outflows related to pensions   | <b>760,406</b>          | <b>841,634</b>       | <b>(81,228)</b>       |
| <b>Liabilities:</b>                     |                         |                      |                       |
| Current liabilities (excluding debt)    | 177,454                 | 246,286              | (68,832)              |
| Current debt and lease                  | 340,000                 | 240,078              | 99,922                |
| Noncurrent liabilities (excluding debt) | 3,901,771               | 3,751,444            | 150,327               |
| Noncurrent debt                         | 725,000                 | 915,000              | (190,000)             |
| <b>Total liabilities</b>                | <b>5,144,225</b>        | <b>5,152,808</b>     | <b>(8,583)</b>        |
| <b>Deferred Inflows of Resources:</b>   |                         |                      |                       |
| Deferred inflows related to pensions    | <b>142,153</b>          | <b>27,939</b>        | <b>114,214</b>        |
| <b>Net Position:</b>                    |                         |                      |                       |
| Net Investment in Capital Assets        | 14,565,086              | 15,343,863           | (778,777)             |
| Restricted                              | 1,783,198               | 1,766,108            | 17,090                |
| Unrestricted                            | (903,196)               | (435,859)            | (467,337)             |
| <b>Total net position</b>               | <b>\$ 15,445,088</b>    | <b>\$ 16,674,112</b> | <b>\$ (1,229,024)</b> |

## Financial Highlights

### Statement of Activities Highlights

|   | Governmental Activities |                      |                       |
|---|-------------------------|----------------------|-----------------------|
|   | 2018                    | 2017                 | Change                |
| <b>Program Revenues:</b>                |                         |                      |                       |
| Charges for services                    | \$ 517,502              | \$ 720,499           | \$ (202,997)          |
| Operating grants and contributions      | 131,321                 | 345,320              | (213,999)             |
| Capital grants and contributions        | 447,309                 | 1,156,014            | (708,705)             |
| <b>General Revenues:</b>                |                         |                      |                       |
| Property taxes                          | 6,795,261               | 6,796,138            | (877)                 |
| Motor vehicle and other excise taxes    | 652,716                 | 621,803              | 30,913                |
| Payments in lieu of taxes               | 338,869                 | 333,287              | 5,582                 |
| Penalties and interest on taxes         | 45,335                  | 23,997               | 21,338                |
| Nonrestricted grants                    | 544,333                 | 576,403              | (32,070)              |
| Unrestricted investment income          | 2,414                   | 9,509                | (7,095)               |
| <b>Total revenues</b>                   | <b>9,475,060</b>        | <b>10,582,970</b>    | <b>(1,107,910)</b>    |
| <b>Expenses:</b>                        |                         |                      |                       |
| General government                      | 748,381                 | 717,035              | 31,346                |
| Public safety                           | 1,554,318               | 1,617,161            | (62,843)              |
| Public works                            | 2,179,420               | 2,025,520            | 153,900               |
| Education                               | 5,066,684               | 5,080,162            | (13,478)              |
| Health and human services               | 141,125                 | 154,997              | (13,872)              |
| Culture and recreation                  | 95,424                  | 105,655              | (10,231)              |
| Employee benefits and insurance         | 870,726                 | 808,796              | 61,930                |
| State assessments                       | 14,002                  | 16,459               | (2,457)               |
| Interest                                | 34,004                  | 45,507               | (11,503)              |
| <b>Total expenses</b>                   | <b>10,704,084</b>       | <b>10,571,292</b>    | <b>132,792</b>        |
| <b>Contributions to Permanent Funds</b> | <b>-</b>                | <b>1,730</b>         | <b>(1,730)</b>        |
| <b>Change in net position</b>           | <b>(1,229,024)</b>      | <b>13,408</b>        | <b>(1,242,432)</b>    |
| <b>Net position - beginning of year</b> | <b>16,674,112</b>       | <b>16,660,704</b>    | <b>13,408</b>         |
| <b>Net position - end of year</b>       | <b>\$ 15,445,088</b>    | <b>\$ 16,674,112</b> | <b>\$ (1,229,024)</b> |

### 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 \$15,445,088 at the close of fiscal year 2018.

Net position of \$14,565,086 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 \$1,783,198, represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$903,196).

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 decreased by \$1,229,024 (7%) during the current fiscal year. The key elements of the increase in net position for fiscal year 2018 was attributed to a net increase in the debt liability of \$240,078; and decreases in the depreciation expense (normally spread out over the useful life of the asset) for the year of \$1,534,114 exceeding in the acquisition of \$665,259 in new capital assets, and as a result of this year's change in the net pension liability of \$158,927 and in the deferred outflow/(inflow) of resources related to pensions of \$195,442.

### **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 \$2,862,042, a decrease of \$186,891 (6%) in comparison with the prior year.

Breakdown of the governmental fund balances are as follows:

- Non-spendable fund balance – \$158,607 (6%).
- Restricted fund balance – \$1,243,582 (43%).
- Committed fund balance – \$36,029 (1%).
- Assigned fund balance – \$455,755 (16%).
- Unassigned fund balance – \$968,069 (34%).

At the end of the fiscal year, the *General Fund* reported a fund balance of \$1,573,157 decreasing \$71,618 (4%) from the prior year. Of the \$1,573,157, the unassigned amount is \$1,117,402 (71%) and the assigned amount is \$455,755 (29%). General fund revenues were \$330,371 (4%) more than the prior fiscal year and expenditures also increased by \$32,956 (.4%). Other activity in the General Fund consisted of net transfers to other funds of \$135,000.

The main components of the increase in general fund revenues was related to increases in property taxes in the amount of \$53,462 (1%), charges for services of \$144,469 and in other revenues of \$100,000 from the prior year.

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

- Increase in General government expenditures of \$90,038 (16%).
- Decrease in Public safety expenditures of \$74,422 (6%).
- Increase in Public works expenditures of \$90,430 (12%).
- Decrease in Debt service expenditures (principal and interest) of \$56,405 (17%).

At the end of the fiscal year, the *Nonmajor Governmental Funds* reported a fund balance of \$1,288,885, decreasing \$115,273 (8%) from the prior year. The decrease is attributed to costs exceeding revenues by \$250,273 and net transfers from the general fund of \$135,000. The fund balance is reported as nonspendable of \$158,607, restricted of \$1,243,582, committed of \$36,029 and unassigned of (\$149,333). Both the revenues and expenditures decreased as a result of the decreases in road infrastructure improvements from State grants during this fiscal year.

### **General Fund Budgetary Highlights**

The final general fund budget for fiscal year 2018 was \$8,954,593. This was an increase of \$141,918 (2%) over the previous year's budget.

There was a decrease of \$7,049 between the total original budget and the total final amended budget. The change is attributed to votes at various special town meetings for various budget operating line items.

General fund expenditures were less than budgeted by \$289,089. Of the \$289,089 in under budget expenditures \$74,195 has been carried over to fiscal year 2019.

There were negative variances in charges for services – ambulance of \$55,531 and licenses, permits and fees of \$5,972 as actual receipts did not meet budget expectations.

Overall the variance with the final budget was a positive \$345,906 consisting of a revenue surplus of \$131,012 and an appropriation surplus of \$214,894.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Town's investment in capital assets for its governmental activities amounts to \$15,630,086.

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:

- Community Center ceiling replacement for \$20,000.
- Police vehicle purchase for \$36,790.
- Highway vehicle purchase for \$149,333.
- Road infrastructure improvements of \$459,136.

**Debt Administration.** The Town's outstanding governmental debt, as of June 30, 2018, totaled \$915,000, of which \$90,000 is for various departmental vehicles and \$825,000 for road infrastructure improvements.

The Town has bond anticipation notes outstanding consisting of \$150,000 in the governmental activities as of June 30, 2018 for the purchase of a highway vehicle.

Please refer to notes 3D, 3F and 3G 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, 2018 do not reflect the fiscal year 2019 Town Meeting action with the exception of the free cash amount used to fund the 2019 budget.

The Annual Town Meeting on June 5, 2018 authorized a fiscal year 2019 operating and capital budget as follows:

|                                      |              |
|--------------------------------------|--------------|
| From the tax levy                    | \$ 8,990,496 |
| From Other Available Funds:          |              |
| <b>General Fund:</b>                 |              |
| Unassigned fund balance:             |              |
| Free cash                            | 381,560      |
| <b>Non-major Governmental Funds:</b> |              |
| Community preservation fund          | 140,159      |
|                                      | <hr/>        |
|                                      | \$ 9,512,215 |
|                                      | <hr/>        |

### **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, 2018**

|   | <u>Primary Government</u><br><u>Governmental</u><br><u>Activities</u> |
|---|---|
| <b>ASSETS</b>                                     |   |
| CURRENT:  |   |
| Cash and Cash Equivalents                         | \$ 2,072,684  |
| Investments                                       | 895,831   |
| Receivables, net of allowance for uncollectibles: |   |
| Property Taxes                                    | 283,353   |
| Tax Liens and Possessions                         | 362,365   |
| Excise Taxes                                      | 78,338  |
| Departmental                                      | 121,812   |
| Due from Other Governments                        | 506,557   |
| Other   | 20,034  |
| Total current assets                              | <u>4,340,974</u>  |
| NONCURRENT:                                       |   |
| Capital Assets, net of accumulated Depreciation:  |   |
| Nondepreciable                                    | 2,922,985   |
| Depreciable                                       | 12,707,101  |
| Total noncurrent assets                           | <u>15,630,086</u>   |
| <b>Total Assets</b>                               | <u>19,971,060</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |   |
| Deferred Outflows Related to Pensions             | <u>760,406</u>  |
| <b>LIABILITIES</b>                                |   |
| CURRENT:  |   |
| Warrants Payable                                  | 93,554  |
| Accrued Payroll                                   | 62,338  |
| Tax Refund Payable                                | 8,600   |
| Accrued Interest                                  | 4,082   |
| Other   | 380   |
| Landfill Closure                                  | 8,500   |
| Bond Anticipation Notes Payable                   | 150,000   |
| Bonds Payable                                     | 190,000   |
| Total current liabilities                         | <u>517,454</u>  |
| NONCURRENT:                                       |   |
| Compensated Absences                              | 28,867  |
| Landfill Closure                                  | 25,500  |
| Net Pension Liability                             | 3,847,404   |
| Bonds Payable                                     | 725,000   |
| Total noncurrent liabilities                      | <u>4,626,771</u>  |
| <b>Total Liabilities</b>                          | <u>5,144,225</u>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>              |   |
| Deferred Inflows Related to Pensions              | <u>142,153</u>  |
| <b>NET POSITION</b>                               |   |
| Net Investment in Capital Assets                  | 14,565,086  |
| Restricted for:                                   |   |
| Capital Projects                                  | 24,965  |
| Federal & State Grants                            | 474,334   |
| Permanent Funds:                                  |   |
| Nonexpendable                                     | 158,607   |
| Expendable  | 179,563   |
| Community Preservation                            | 398,039   |
| Other Purposes                                    | 547,690   |
| Unrestricted                                      | (903,196)   |
| <b>Total Net Position</b>                         | <u>\$ 15,445,088</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, 2018**

|  | Program Revenues     |                         |  |  | Net (Expenses)<br>Revenues and<br>and Changes<br>in Net Position  |
|--|----------------------|-------------------------|--|--|---|
|  |                      |                         |  |  | <u>Primary</u><br><u>Government</u><br>Governmental<br>Activities |
|  | Expenses             | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |   |
| <b>Primary Government:</b>                                 |                      |                         |  |  |   |
| <b>Governmental Activities:</b>                            |                      |                         |  |  |   |
| General Government   | \$ 748,381           | \$ 88,030               | \$ 40,545                                | \$ -                                   | \$ (619,806)  |
| Public Safety  | 1,554,318            | 375,196                 | 9,960                                    | -                                      | (1,169,162)   |
| Public Works   | 2,179,420            | 2,782                   | -  | 447,309                                | (1,729,329)   |
| Education  | 5,066,684            | -                       | -  | -                                      | (5,066,684)   |
| Health and Human Services                                  | 141,125              | 49,635                  | 62,649                                   | -                                      | (28,841)  |
| Culture and Recreation                                     | 95,424               | 1,859                   | 18,167                                   | -                                      | (75,398)  |
| Employee Benefits and Insurance                            | 870,726              | -                       | -  | -                                      | (870,726)   |
| State Assessments  | 14,002               | -                       | -  | -                                      | (14,002)  |
| Interest   | 34,004               | -                       | -  | -                                      | (34,004)  |
| <b>Total Governmental Activities</b>                       | <b>10,704,084</b>    | <b>517,502</b>          | <b>131,321</b>                           | <b>447,309</b>                         | <b>(9,607,952)</b>  |
| <b>Total Primary Government</b>                            | <b>\$ 10,704,084</b> | <b>\$ 517,502</b>       | <b>\$ 131,321</b>                        | <b>\$ 447,309</b>                      | <b>(9,607,952)</b>  |
| <b>General Revenues:</b>                                   |                      |                         |  |  |   |
| Property taxes   |                      |                         |  |  | 6,795,261   |
| Motor vehicle excise and other taxes                       |                      |                         |  |  | 652,716   |
| Payments in lieu of taxes                                  |                      |                         |  |  | 338,869   |
| Penalties & Interest on taxes                              |                      |                         |  |  | 45,335  |
| Grants & Contributions not restricted to specific programs |                      |                         |  |  | 544,333   |
| Unrestricted Investment Income                             |                      |                         |  |  | 2,414   |
| <b>Total General Revenues</b>                              |                      |                         |  |  | <b>8,378,928</b>  |
| <b>Change in Net Position</b>                              |                      |                         |  |  | <b>(1,229,024)</b>  |
| <b>Net Position:</b>                                       |                      |                         |  |  |   |
| Beginning of year  |                      |                         |  |  | 16,674,112  |
| End of year  |                      |                         |  |  | <b>\$ 15,445,088</b>  |

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

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

|   | General<br>Fund     | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| <b>Assets:</b>  |                     |                                   |                                |
| Cash and Cash Equivalents   | \$ 1,083,309        | \$ 989,375                        | \$ 2,072,684                   |
| Investments   | 538,138             | 357,693                           | 895,831                        |
| Receivables, net of allowance for uncollectibles:                             |                     |                                   |                                |
| Property Taxes  | 281,723             | 1,630                             | 283,353                        |
| Tax Liens and Possessions   | 361,156             | 1,209                             | 362,365                        |
| Excise Taxes  | 78,338              | -                                 | 78,338                         |
| Departmental  | 46,663              | 75,149                            | 121,812                        |
| Due from Other Governments  | 83,540              | 423,017                           | 506,557                        |
| Other   | 20,034              | -                                 | 20,034                         |
| <b>Total Assets</b>   | <b>\$ 2,492,901</b> | <b>\$ 1,848,073</b>               | <b>\$ 4,340,974</b>            |
| <b>Liabilities:</b>   |                     |                                   |                                |
| Warrants Payable  | \$ 80,938           | \$ 12,616                         | \$ 93,554                      |
| Accrued Payroll   | 46,108              | 16,230                            | 62,338                         |
| Tax Refund Payable  | 8,600               | -                                 | 8,600                          |
| Other   | 380                 | -                                 | 380                            |
| Bond Anticipation Notes Payable   | -                   | 150,000                           | 150,000                        |
| <b>Total Liabilities</b>  | <b>136,026</b>      | <b>178,846</b>                    | <b>314,872</b>                 |
| <b>Deferred Inflows of Resources:</b>   |                     |                                   |                                |
| Unavailable Revenue   | 783,718             | 380,342                           | 1,164,060                      |
| <b>Fund Balance:</b>  |                     |                                   |                                |
| Nonspendable  | -                   | 158,607                           | 158,607                        |
| Restricted  | -                   | 1,243,582                         | 1,243,582                      |
| Committed   | -                   | 36,029                            | 36,029                         |
| Assigned  | 455,755             | -                                 | 455,755                        |
| Unassigned  | 1,117,402           | (149,333)                         | 968,069                        |
| <b>Total Fund Balance</b>   | <b>1,573,157</b>    | <b>1,288,885</b>                  | <b>2,862,042</b>               |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b> | <b>\$ 2,492,901</b> | <b>\$ 1,848,073</b>               | <b>\$ 4,340,974</b>            |

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, 2018**

|   | General<br>Fund     | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| <b>Revenues:</b>  |                     |                                   |                                |
| Property Taxes  | \$ 6,711,999        | \$ 57,004                         | \$ 6,769,003                   |
| Intergovernmental                                       | 586,447             | 459,190                           | 1,045,637                      |
| Excise and Other Taxes                                  | 650,877             | -                                 | 650,877                        |
| Payment in Lieu of Taxes                                | 338,869             | -                                 | 338,869                        |
| Charges for Services                                    | 144,469             | 238,073                           | 382,542                        |
| Licenses, Permits, Fees                                 | 148,476             | -                                 | 148,476                        |
| Interest on Taxes                                       | 45,335              | -                                 | 45,335                         |
| Investment Income                                       | 2,414               | (2,805)                           | (391)                          |
| Gifts and Donations                                     | -                   | 44,177                            | 44,177                         |
| Other   | 100,000             | 18,442                            | 118,442                        |
| <b>Total Revenues</b>                                   | <b>8,728,886</b>    | <b>814,081</b>                    | <b>9,542,967</b>               |
| <b>Expenditures:</b>                                    |                     |                                   |                                |
| Current:  |                     |                                   |                                |
| General Government                                      | 659,240             | 95,308                            | 754,548                        |
| Public Safety   | 1,226,951           | 206,715                           | 1,433,666                      |
| Public Works  | 864,043             | 685,446                           | 1,549,489                      |
| Education   | 4,953,205           | -                                 | 4,953,205                      |
| Health and Human Services                               | 82,386              | 67,239                            | 149,625                        |
| Culture and Recreation                                  | 74,918              | 9,646                             | 84,564                         |
| Employee Benefits and Insurance                         | 516,357             | -                                 | 516,357                        |
| State Assessments                                       | 14,002              | -                                 | 14,002                         |
| Debt Service:   |                     |                                   |                                |
| Principal   | 240,078             | -                                 | 240,078                        |
| Interest  | 34,324              | -                                 | 34,324                         |
| <b>Total Expenditures</b>                               | <b>8,665,504</b>    | <b>1,064,354</b>                  | <b>9,729,858</b>               |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>63,382</b>       | <b>(250,273)</b>                  | <b>(186,891)</b>               |
| <b>Excess of Revenues Over</b>                          |                     |                                   |                                |
| Operating Transfers In                                  | -                   | 135,000                           | 135,000                        |
| Operating Transfers Out                                 | (135,000)           | -                                 | (135,000)                      |
| <b>Total Other Financing Sources (Uses)</b>             | <b>(135,000)</b>    | <b>135,000</b>                    | <b>-</b>                       |
| <b>Net Change in Fund Balances</b>                      | <b>(71,618)</b>     | <b>(115,273)</b>                  | <b>(186,891)</b>               |
| <b>Fund Balances, Beginning of Year</b>                 | <b>1,644,775</b>    | <b>1,404,158</b>                  | <b>3,048,933</b>               |
| <b>Fund Balances, End of Year</b>                       | <b>\$ 1,573,157</b> | <b>\$ 1,288,885</b>               | <b>\$ 2,862,042</b>            |

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, 2018**

|   |           |                          |
|---|-----------|--------------------------|
| <b>Total Governmental Fund Balances</b>   | \$        | 2,862,042                |
| Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.  |           | 15,630,086               |
| Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.  |           | 1,164,060                |
| 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. |           | 618,253                  |
| 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  | \$        | (915,000)                |
| Landfill Closure  |           | (34,000)                 |
| Net Pension Liability   |           | (3,847,404)              |
| Compensated Absences  |           | (28,867)                 |
|   |           | <u>(4,825,271)</u>       |
| <b>Net Position of Governmental Activities</b>  | <b>\$</b> | <b><u>15,445,088</u></b> |

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, 2018**

**Net Change in Fund Balances - Total Governmental Funds** \$ (186,891)

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 | \$ 665,259         |           |
| Depreciation             | <u>(1,534,114)</u> | (868,855) |

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. (67,907)

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 | 240,078 |
|---------------------------------------|---------|

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                                       | 100          |           |
| Net Change in Accrued Interest on Long-Term Debt                         | 320          |           |
| Net Change in Net Pension Liability                                      | (158,927)    |           |
| Net Change in Deferred Outflow/(Inflow) of Resources Related to Pensions | (195,442)    |           |
| Net Change in Landfill Closure   | <u>8,500</u> | (345,449) |

**Change in Net Position of Governmental Activities** \$ (1,229,024)

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, 2018**

|   | Budgeted Amounts                                 |                    |                 |                                |   |   |
|---|--|--------------------|-----------------|--------------------------------|---|---|
|   | Amounts<br>Carried<br>Forward from<br>Prior Year | Original<br>Budget | Final<br>Budget | Actual<br>Budgetary<br>Amounts | Amounts<br>Carried<br>Forward to<br>Next Year | Variance with<br>Final Budget<br>Positive<br>(Negative) |
| <b>Revenues:</b>  |  |                    |                 |                                |   |   |
| Property Taxes  | \$ -   | 6,693,449          | 6,693,449       | 6,717,599                      | \$ -  | \$ 24,150   |
| Intergovernmental                                       | -  | 582,838            | 582,838         | 586,447                        | -   | 3,609   |
| Excise and Other Taxes                                  | -  | 616,000            | 616,000         | 650,877                        | -   | 34,877  |
| Payment in Lieu of Taxes                                | -  | 333,000            | 333,000         | 338,869                        | -   | 5,869   |
| Charges for Services - Ambulance                        | -  | 200,000            | 200,000         | 144,469                        | -   | (55,531)  |
| Licenses, Permits, Fees                                 | -  | 154,448            | 154,448         | 148,476                        | -   | (5,972)   |
| Other   | -  | -                  | -               | 100,000                        | -   | 100,000   |
| Interest on Taxes                                       | -  | 23,500             | 23,500          | 45,335                         | -   | 21,835  |
| Investment Income                                       | -  | 4,500              | 4,500           | 6,675                          | -   | 2,175   |
| <b>Total Revenues</b>                                   | -  | 8,607,735          | 8,607,735       | 8,738,747                      | -   | 131,012   |
| <b>Expenditures:</b>                                    |  |                    |                 |                                |   |   |
| Current:  |  |                    |                 |                                |   |   |
| General Government                                      | 67,394   | 691,822            | 764,758         | 659,240                        | 57,154  | 48,364  |
| Public Safety   | 10,878   | 1,270,224          | 1,279,583       | 1,226,951                      | 3,383   | 49,249  |
| Public Works  | 360  | 811,418            | 897,979         | 864,043                        | 13,658  | 20,278  |
| Education   | 2,115  | 5,020,877          | 4,953,478       | 4,953,205                      | -   | 273   |
| Health and Human Services                               | 4,980  | 101,319            | 104,836         | 82,386                         | -   | 22,450  |
| Culture and Recreation                                  | 4,576  | 80,604             | 85,180          | 74,918                         | -   | 10,262  |
| Employee Benefits and Insurance                         | -  | 602,241            | 576,525         | 516,357                        | -   | 60,168  |
| State Assessments                                       | -  | 14,002             | 14,002          | 14,002                         | -   | -   |
| Debt Service:   |  |                    |                 |                                |   |   |
| Principal   | 156  | 242,578            | 242,578         | 240,078                        | -   | 2,500   |
| Interest  | 424  | 35,674             | 35,674          | 34,324                         | -   | 1,350   |
| <b>Total Expenditures</b>                               | 90,883   | 8,870,759          | 8,954,593       | 8,665,504                      | 74,195  | 214,894   |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | (90,883)   | (263,024)          | (346,858)       | 73,243                         | (74,195)                                      | 345,906   |
| <b>Other Financing Sources (Uses):</b>                  |  |                    |                 |                                |   |   |
| Operating Transfers In                                  | -  | -                  | -               | -                              | -   | -   |
| Operating Transfers out                                 | -  | (75,000)           | (91,080)        | (91,080)                       | -   | -   |
| <b>Total Other Financing Sources (Uses)</b>             | -  | (75,000)           | (91,080)        | (91,080)                       | -   | -   |
| <b>Net Change in Budgetary Fund Balance</b>             | (90,883)   | (338,024)          | (437,938)       | (17,837)                       | (74,195)                                      | \$ 345,906  |
| <b>Other Budgetary Items:</b>                           |  |                    |                 |                                |   |   |
| Free Cash and Other Reserves                            | -  | 392,860            | 401,891         |                                |   |   |
| Prior Year Deficits                                     | -  | (54,836)           | (54,836)        |                                |   |   |
| Prior Year Encumbrances                                 | 90,883   | -                  | 90,883          |                                |   |   |
| <b>Total Other Budgetary Items</b>                      | 90,883   | 338,024            | 437,938         |                                |   |   |
| <b>NET BUDGET</b>                                       | \$ -   | \$ -               | \$ -            |                                |   |   |

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, 2018**

|  | <u>Revenues</u>     | <u>Expenditures</u> |
|--|---------------------|---------------------|
| <b>Reported on a Budgetary Basis</b>   | \$ 8,738,747        | \$ 8,665,504        |
| <u>Adjustments:</u>  |                     |                     |
| Activity for Stabilization Fund Recorded in the General Fund for GAAP Purposes | (4,261)             | -                   |
| Net Increase in Revenue from Recording 60-Day Receipts                         | 3,000               | -                   |
| Net Decrease in Revenue from Recording Refund Taxes Payable                    | (8,600)             | -                   |
| <b>Reported on a GAAP Basis</b>  | <u>\$ 8,728,886</u> | <u>\$ 8,665,504</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, 2018**

|                                  | <b>Private<br/>Purpose<br/>Trust Funds</b> | <b>Agency<br/>Funds</b> |
|----------------------------------|--|-------------------------|
| <b>ASSETS</b>                    |  |                         |
| Cash and Cash Equivalents        | \$ -                                       | \$ 488,068              |
| Investments                      | 159,413                                    | -                       |
| <b>Total Assets</b>              | <b>159,413</b>                             | <b>488,068</b>          |
| <b>LIABILITIES</b>               |  |                         |
| Warrants Payable                 | -  | 819                     |
| Due to Others                    | -  | 21,635                  |
| Escrows and Deposits             | -  | 465,614                 |
| <b>Total Liabilities</b>         | <b>-</b>                                   | <b>488,068</b>          |
| <b>NET POSITION</b>              |  |                         |
| Held in Trust for Other Purposes | \$ 159,413                                 | \$ -                    |

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, 2018**

|  | <u>Private<br/>Purpose<br/>Trust Funds</u> |
|--|--|
| <b>Additions</b>                         |  |
| Investment Income                        | \$ (2,811)                                 |
| <b>Total Additions</b>                   | <u>(2,811)</u>                             |
| <b>Deductions:</b>                       |  |
| Educational Scholarships                 | <u>2,000</u>                               |
| <b>Total Deductions</b>                  | <u>2,000</u>                               |
| <b>Change in Net Position</b>            | <u>(4,811)</u>                             |
| <b>Net Position at Beginning of Year</b> | <u>164,224</u>                             |
| <b>Net Position at End of Year</b>       | <u><u>\$ 159,413</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, 2018**

**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 2018, 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, 2018**

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, 2018**

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, 2018**

**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, 2017 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, 2018**

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 2018 on June 27, 2017, that were due on August 1, 2017 and November 1, 2017 and actual bills on December 28, 2017 that were due on February 1, 2018 and May 1, 2018, 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 2018 is \$6,774,154.

The total amount raised by taxation was \$6,772,982.

#### **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, police details 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.

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.

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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:

| <b>Capital Asset Type</b>      | <b>Years</b> |
|--------------------------------|--------------|
| 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*.

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*.

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**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, 2018**

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, 2018**

**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, 2018**

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 2018, the Town incurred a final budget deficit of \$437,938 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           | \$ 401,891 |
| Reserve for deficits      | (54,836)   |
| Prior year's encumbrances | 90,883     |
|                           | <hr/>      |
|                           | \$ 437,938 |
|                           | <hr/>      |

**B. Deficit Fund Balances**

The following fund has a deficit at June 30, 2018 as measured by the balance of unreserved fund balance.

- The *Highway vehicle* capital project fund has a deficit of \$149,333. The Town has an outstanding bond anticipation note for \$150,000. The deficit will be eliminated upon the issuance of permanent debt.

**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, 2018 were \$2,699,621. 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, 2018**

As of June 30, 2018, the Town had the following investments and maturities:

| Investment Type                       | Fair Value          | Investment Maturities<br>(in Years) |            |
|---------------------------------------|---------------------|-------------------------------------|------------|
|                                       |                     | Less Than 1                         | 1 to 5     |
| Debt Securities:                      |                     |                                     |            |
| U. S. treasury obligations            | \$ 171,892          | \$ 127,574                          | \$ 44,318  |
| U. S. government agencies             | 265,013             | -                                   | 265,013    |
| Corporate bonds                       | 228,729             | -                                   | 228,729    |
| Money market mutual fund              | 10,043              | 10,043                              | -          |
|                                       | 675,677             | \$ 137,617                          | \$ 538,060 |
| Other Investments:                    |                     |                                     |            |
| Certificate of deposits               | 242,033             |                                     |            |
| Equity securities - domestic (stocks) | 119,443             |                                     |            |
| MMDT                                  | 18,091              |                                     |            |
|                                       | <u>\$ 1,055,244</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 \$1,055,244 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, 2018**

**Credit Risk**

The Town's exposure to credit risk as of June 30, 2018 is as follows:

| Related Debt<br>Instruments               | Fair<br>Value     |
|---|-------------------|
| <u>Moody's Quality Ratings</u>            |                   |
| <b><i>U. S. Treasury Obligations:</i></b> |                   |
| Aaa                                       | \$ 171,892        |
| <b><i>U. S. Government Agencies:</i></b>  |                   |
| Aaa                                       | 265,013           |
| <b><i>Corporate Bonds:</i></b>            |                   |
| A1  | 43,814            |
| A2  | 29,324            |
| A3  | 91,583            |
| Baa1                                      | 34,507            |
| Baa2                                      | 29,501            |
| <b><i>Money Market Mutual Funds:</i></b>  |                   |
| Not rated                                 | 10,043            |
|   | <u>\$ 675,677</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 25.11% 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, 2018**

The Town has the following recurring fair value measurements as of June 30, 2018:

| Investment Type                         | Fair Value   | Fair Value Measurements  |   |  |
|---|--------------|--|---|--|
|   |              | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Investments by Fair Value Level:        |              |  |   |  |
| U. S. treasury obligations              | \$ 171,892   | \$ 171,892   | \$ -  | \$ -   |
| U. S. government agencies               | 265,013      | 265,013  | -   | -  |
| Certificates of deposit                 | 242,033      | 242,033  | -   | -  |
| Equity securities - domestic            | 119,443      | 119,443  | -   | -  |
| Money market mutual fund                | 10,043       | 10,043   | -   | -  |
| Corporate bonds                         | 228,729      | -  | 228,729   | -  |
|   | 1,037,153    | \$ 808,424   | \$ 228,729  | \$ -   |
| Investments Measured at Amortized Cost: |              |  |   |  |
| External Investment Pools (MMDT)        | 18,091       |  |   |  |
| Total Investments                       | \$ 1,055,244 |  |   |  |

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, 2018, 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<br>Amount | Allowance<br>for<br>Uncollectibles | Net<br>Amount |
|---|-----------------|------------------------------------|---------------|
| <b>Major and nonmajor governmental funds:</b> |                 |                                    |               |
| Property taxes                                | \$ 289,253      | \$ (5,900)                         | \$ 283,353    |
| Tax liens and possessions                     | 362,365         | -                                  | 362,365       |
| Excise taxes                                  | 100,226         | (21,888)                           | 78,338        |
| Departmental                                  | 494,265         | (372,453)                          | 121,812       |
| Other   | 105,277         | (105,277)                          | -             |
| Due from other governments                    | 506,557         | -                                  | 506,557       |
|   | \$ 1,857,943    | \$ (505,518)                       | \$ 1,352,425  |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The composition of amounts due from other governments as of June 30, 2018 for the governmental funds is as follows:

**General Fund:**

***Commonwealth of Massachusetts:***

|                                      |    |               |
|--------------------------------------|----|---------------|
| Department of Revenue:               |    |               |
| Veterans, blind and surviving spouse | \$ | 33,702        |
| Department of Veterans Services:     |    |               |
| Veterans benefits                    |    |               |
|                                      |    | <u>49,838</u> |
|                                      | \$ | 83,540        |

**Nonmajor Governmental Funds:**

***Commonwealth of Massachusetts:***

|  |    |                       |
|--|----|-----------------------|
| Massachusetts Department of Transportation |    | 423,017               |
|  | \$ | <u><u>506,557</u></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             | \$ | 247,723       |
| Tax liens and possessions  |    | 361,156       |
| Excise taxes               |    | 78,338        |
| Departmental               |    | 46,663        |
| Due from other governments |    | <u>49,838</u> |
|                            | \$ | 783,718       |

**Nonmajor Governmental Funds:**

|                            |    |                         |
|----------------------------|----|-------------------------|
| Property taxes             |    | 1,630                   |
| Tax liens and possessions  |    | 1,209                   |
| Departmental               |    | 25,856                  |
| Due from other governments |    | <u>351,647</u>          |
|                            | \$ | 380,342                 |
|                            |    | <u><u>1,164,060</u></u> |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**D. Capital Assets**

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

| <b>Governmental Activities</b>                    | <b>Beginning<br/>Balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets not being depreciated:             |                              |                  |                  |                           |
| Land  | \$ 2,264,131                 | \$ -             | \$ -             | \$ 2,264,131              |
| Construction in progress                          | 535,283                      | 123,571          | -                | 658,854                   |
| Total capital assets not being depreciated        | 2,799,414                    | 123,571          | -                | 2,922,985                 |
| Capital assets being depreciated:                 |                              |                  |                  |                           |
| Buildings and Renovations                         | 6,504,085                    | 20,000           | -                | 6,524,085                 |
| Machinery, equipment and other                    | 2,924,348                    | 186,123          | -                | 3,110,471                 |
| Infrastructure                                    | 45,267,336                   | 335,565          | -                | 45,602,901                |
| Total capital assets being depreciated            | 54,695,769                   | 541,688          | -                | 55,237,457                |
| Less accumulated depreciation for:                |                              |                  |                  |                           |
| Buildings and Renovations                         | 3,306,929                    | 142,275          | -                | 3,449,204                 |
| Machinery, equipment and other                    | 1,808,116                    | 253,794          | -                | 2,061,910                 |
| Infrastructure                                    | 35,881,197                   | 1,138,045        | -                | 37,019,242                |
| Total accumulated depreciation                    | 40,996,242                   | 1,534,114        | -                | 42,530,356                |
| Total capital assets being depreciated, net       | 13,699,527                   | (992,426)        | -                | 12,707,101                |
| Total governmental activities capital assets, net | \$ 16,498,941                | \$ (868,855)     | \$ -             | \$ 15,630,086             |

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

**Governmental Activities:**

|  |                     |
|--|---------------------|
| General government                                   | \$ 13,832           |
| Public safety  | 159,107             |
| Public works   | 113,479             |
| Education  | 1,236,836           |
| Culture and recreation                               | 10,860              |
| Total depreciation expense - governmental activities | <u>\$ 1,534,114</u> |

**E. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2018, are summarized below:

|                       |                      |
|-----------------------|----------------------|
|                       | <u>Transfers In:</u> |
|                       | Nonmajor             |
|                       | Governmental         |
|                       | funds                |
| <u>Transfers Out:</u> |                      |
| General fund          | <u>\$ 135,000</u>    |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**F. Short-Term Financing**

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type activities are as follows:

| <b>Purpose</b>                 | <b>Interest Rate</b> | <b>Final Maturity Date</b> | <b>Balance July 1, 2017</b> | <b>Renewed/ Issued</b> | <b>Retired/ Redeemed</b> | <b>Outstanding June 30, 2018</b> |
|--------------------------------|----------------------|----------------------------|-----------------------------|------------------------|--------------------------|----------------------------------|
| <b>Bond Anticipation Note:</b> |                      |                            |                             |                        |                          |                                  |
| Highway vehicle                | 1.29%                | 11/20/2018                 | \$ -                        | \$ 150,000             | \$ -                     | \$ 150,000                       |

**G. 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:

|                              | <b>Interest Rate</b> | <b>Date Issued</b> | <b>Final Maturity Date</b> | <b>Original Amount Issued</b> | <b>Outstanding June 30, 2018</b> |
|------------------------------|----------------------|--------------------|----------------------------|-------------------------------|----------------------------------|
| <b>Inside Debt:</b>          |                      |                    |                            |                               |                                  |
| Road improvements            | 1.88%                | 4/30/2015          | 5/15/2023                  | \$ 1,395,000                  | \$ 825,000                       |
| Highway truck                | 1.88%                | 4/30/2015          | 5/15/2023                  | 135,000                       | 80,000                           |
| Police vehicle               | 1.88%                | 4/30/2015          | 5/15/2020                  | 25,000                        | 10,000                           |
| Total governmental type debt |                      |                    |                            |                               | <u>\$ 915,000</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, 2018, are as follows:

| <b>Year</b> | <b>Principal</b>  | <b>Interest</b>  | <b>Total</b>      |
|-------------|-------------------|------------------|-------------------|
| 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>\$ 915,000</u> | <u>\$ 81,600</u> | <u>\$ 996,600</u> |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

|                                 | Balance<br>July 1, 2017 | Additions  | Reductions | Balance<br>June 30, 2018 | Amounts Due<br>within One<br>Year |
|---------------------------------|-------------------------|------------|------------|--------------------------|-----------------------------------|
| <b>Governmental activities:</b> |                         |            |            |                          |                                   |
| <b>Bond Payable:</b>            |                         |            |            |                          |                                   |
| General obligation bonds        | \$ 1,155,078            | \$ -       | \$ 240,078 | \$ 915,000               | \$ 190,000                        |
| <b>Landfill closure</b>         | 42,500                  | -          | 8,500      | 34,000                   | 8,500                             |
| <b>Compensated absences</b>     | 28,967                  | 3,875      | 3,975      | 28,867                   | -                                 |
| <b>Net pension liability</b>    | 3,688,477               | 158,927    | -          | 3,847,404                | -                                 |
| Governmental activity           |                         |            |            |                          |                                   |
| Long-term liabilities           | \$ 4,915,022            | \$ 162,802 | \$ 252,553 | \$ 4,825,271             | \$ 198,500                        |

**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, 2018 totaled \$915,000.

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, 2018:

|   |                |
|---|----------------|
| Equalized Valuation-Real Estate and<br>Personal Property (2018) | \$ 467,728,400 |
| Debt Limit: 5 % of Equalized value                              | 23,386,420     |
| Total Debt Outstanding  | \$ 915,000     |
| Less: Debt Outside Debt Limit                                   | -              |
|   | 915,000        |
| Inside Debt Excess Borrowing Capacity<br>at June 30, 2018       | \$ 22,471,420  |

**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, 2018**

Loan authorizations that have not been issued as of June 30, 2018 and are not reflected in the Town's financial statements are as follows:

| <b>Date</b> | <b>Town Meeting<br/>Authorized</b> | <b>Purpose</b>                      | <b>Amount</b>     |
|-------------|------------------------------------|-------------------------------------|-------------------|
| 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             |
| 6/6/2017    |                                    | Purchase a Fire Truck               | 450,000           |
|             |                                    |                                     | <u>\$ 613,499</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.

|  | <b>Current<br/>Year's<br/>Long Term<br/>Debt</b> | <b>Town's<br/>Estimated<br/>Share</b> | <b>Town's<br/>Estimated<br/>Indirect Debt</b> |
|--|--|---------------------------------------|---|
| Quabbin Regional School District                     |  |                                       |   |
| Green repair projects                                | \$ 945,000                                       | 24.77%                                | \$ 234,077                                    |
| Montachusett Vocational<br>Technical School District | <u>2,247,000</u>                                 | 2.54%                                 | <u>57,074</u>                                 |
|  | <u>\$ 3,192,000</u>                              |                                       | <u>\$ 291,150</u>                             |



**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**H. Fund Balances**

The following is a summary of the Town's Governmental fund balances at the year ended June 30, 2018:

|                                  | <b>General<br/>Fund</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|----------------------------------|-------------------------|--|---|
| Nonspendable:                    |                         |  |   |
| Permanent funds                  | \$ -                    | \$ 158,607                                 | \$ 158,607                              |
| Restricted:                      |                         |  |   |
| Federal, state and local grants  | -                       | 122,686                                    | 122,686                                 |
| Revolving funds                  | -                       | 152,498                                    | 152,498                                 |
| Community preservation act       | -                       | 395,200                                    | 395,200                                 |
| Gifts and donations              | -                       | 141,665                                    | 141,665                                 |
| Septic program                   | -                       | 141,269                                    | 141,269                                 |
| Capital projects                 | -                       | 24,298                                     | 24,298                                  |
| Permanent funds                  | -                       | 179,563                                    | 179,563                                 |
| Other                            | -                       | 86,403                                     | 86,403                                  |
|                                  | -                       | 1,243,582                                  | 1,243,582                               |
| Committed:                       |                         |  |   |
| Capital projects                 | -                       | 36,029                                     | 36,029                                  |
| Assigned:                        |                         |  |   |
| General government               | 57,154                  | -  | 57,154                                  |
| Public safety                    | 3,383                   | -  | 3,383                                   |
| Public works                     | 13,658                  | -  | 13,658                                  |
| Subsequent year's budget         | 381,560                 | -  | 381,560                                 |
|                                  | 455,755                 | -  | 455,755                                 |
| Unassigned:                      |                         |  |   |
| General fund                     | 1,117,402               | -  | 1,117,402                               |
| Deficit capital projects         | -                       | (149,333)                                  | (149,333)                               |
|                                  | 1,117,402               | (149,333)                                  | 968,069                                 |
| Total Governmental fund balances | \$ 1,573,157            | \$ 1,288,885                               | \$ 2,862,042                            |

**I. Special Trust Funds**

**Stabilization Fund**

Massachusetts General Laws, Chapter 40, Section 5B, allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. Any interest shall be added to and become a part of the fund.

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

At June 30, 2018, the balances in the stabilization funds are reported in the General Fund as unassigned fund balance consisting of the following:

|                                    |    |                       |
|------------------------------------|----|-----------------------|
| General purpose stabilization fund | \$ | 385,427               |
| Capital stabilization fund         |    | <u>156,813</u>        |
|                                    | \$ | <u><u>542,240</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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

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 \$34,000.

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, 2018**

**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, 2017 was \$238,741, representing 21.80% 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, 2018**

**Pension Liability**

As of June 30, 2018, a reported liability of \$3,847,404 is the Town's proportionate share of the net pension liability as measured as of December 31, 2017. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 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, 2017, the Town's proportional percentage was 0.4718%, which was a slight increase from the last measurement.

**Pension Expense**

For the year ended June 30, 2018, the Town recognized a pension expense of \$593,111 and reported deferred outflows of resources related to pensions of \$760,406 from the net differences between expected and actual experience, changes in assumptions and change in allocated proportion; and deferred inflows of resources related to pensions of \$142,153 from the net differences between projected and actual investment earnings and the change in allocated proportion.

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

| <b>For years ended June 30,</b> |             |                   |
|---------------------------------|-------------|-------------------|
|                                 | <b>2019</b> | <b>\$ 225,030</b> |
|                                 | <b>2020</b> | <b>224,071</b>    |
|                                 | <b>2021</b> | <b>128,644</b>    |
|                                 | <b>2022</b> | <b>40,508</b>     |
|                                 |             | <b>\$ 618,253</b> |

**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, 2017;

|                       |   |
|-----------------------|---|
| Valuation date        | January 1, 2016   |
| Actuarial cost method | Entry Age Normal  |
| Amortization method   | <i>Unfunded Actuarial Accrued Liability (UAAL):</i><br>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%.<br><i>2002 &amp; 2003 Early Retirement Incentive (ERI):</i><br>Increasing dollar amount at 4.5% to reduce the UAAL to zero on or before June 30, 2028 and the 2010 ERI: Level dollar amount to reduce the UAAL to zero on or before June 30, 2022. |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

|                           |   |
|---------------------------|---|
| Asset valuation method    | The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of:<br>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.<br>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                 | 3.0% per year   |
| Salary increases          | Group 1: 4.25% -- 6.00%, based on service<br>Group 4: 4.75% -- 7.00%, based on service  |
| Payroll growth            | 4.0% 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.<br>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, 2017, are summarized in the following table:

| <b>Asset Class</b>       | <b>Target Allocation</b> | <b>Long-Term Expected Real Rate of Return</b> |
|--------------------------|--------------------------|---|
| Global Equity            | 40%                      | 4.91%   |
| Fixed income             | 22%                      | 2.04%   |
| Private Equity           | 11%                      | 6.50%   |
| Real Estate              | 10%                      | 3.70%   |
| Timber/Natural Resources | 4%                       | 3.25%   |
| Hedge Funds              | 13%                      | 3.40%   |
| Total                    | 100%                     |   |

**Rate of Return**

For the year ended December 31, 2017, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 16.71%. 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, 2018**

**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 or 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<br>6.75% | Current<br>Discount Rate<br>7.75% | 1% Increase<br>8.75% |
|-----------------------|----------------------|-----------------------------------|----------------------|
| Net pension liability | \$ 4,689,158         | \$ 3,847,404                      | \$ 3,136,537         |

**F. Implementation of New GASB Pronouncements**

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. 85, *Omnibus 2018*, for implementation in fiscal year 2018.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, for implementation in fiscal year 2018.

**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. 83, *Certain Asset Retirement Obligations*, for implementation in fiscal year 2019.

The GASB issued Statement No. 84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for implementation in fiscal year 2019.

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, 2018**

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>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> | <u>12/31/2014</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Town's proportion of the net pension liability (asset)                     | 0.4718%           | 0.4404%           | 0.4456%           | 0.3830%           |
| Town's proportionate share of the net pension liability (asset)            | \$ 3,847,404      | \$ 3,688,477      | \$ 3,162,619      | \$ 2,278,991      |
| Town's covered employee payroll  | \$ 1,094,952      | \$ 1,250,143      | \$ 1,195,841      | \$ 1,149,847      |
| Net pension liability percentage of covered-employee payroll               | 351.38%           | 295.04%           | 264.47%           | 198.20%           |
| Plan fiduciary net position as a percentage of the total pension liability | 46.40%            | 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, 2018**

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>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> | <u>12/31/2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined contribution   | \$ 238,741        | \$ 213,907        | \$ 202,444        | \$ 151,350        |
| Less: Contributions in relation to the actuarially<br>determined contribution | <u>(238,741)</u>  | <u>(213,907)</u>  | <u>(202,444)</u>  | <u>(151,350)</u>  |
| Contribution deficiency (excess)  | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| Town's covered employee payroll   | \$ 1,094,952      | \$ 1,250,143      | \$ 1,195,841      | \$ 1,149,847      |
| Contributions percentage of covered-employee payroll                          | 21.80%            | 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, 2018**

|  | Fund Balances<br>July 1, 2017 | Revenues          | Expenditures      | Other Financing<br>Sources (Uses) | Fund Balances<br>June 30, 2018 |
|--|-------------------------------|-------------------|-------------------|-----------------------------------|--------------------------------|
| <b>Special Revenue:</b>                    |                               |                   |                   |                                   |                                |
| <b>Federal and State Grants:</b>           |                               |                   |                   |                                   |                                |
| Arts Lottery Cultural Council              | \$ 4,313                      | \$ 4,551          | \$ 3,409          | \$ -                              | \$ 5,455                       |
| Council on Aging Grants                    | 98                            | 6,946             | 7,044             | -                                 | -                              |
| Economic Development Grant                 | 5,000                         | -                 | -                 | -                                 | 5,000                          |
| Extended Polling Hours                     | -                             | 870               | 215               | -                                 | 655                            |
| Small Bridge Grant                         | -                             | 68,870            | 68,870            | -                                 | -                              |
| Highway grants                             | -                             | 358,060           | 358,057           | -                                 | 3                              |
| Library Grants                             | 8,728                         | 5,142             | 1,185             | -                                 | 12,685                         |
| Public Safety Grants                       | 21,610                        | 4,960             | 7,817             | -                                 | 18,753                         |
| School Grants                              | 100,000                       | -                 | 50,000            | -                                 | 50,000                         |
| Senior Center Grants                       | 31,603                        | -                 | 1,467             | -                                 | 30,136                         |
| <b>Other:</b>                              |                               |                   |                   |                                   |                                |
| Board of Health Revolving                  | 5,075                         | 9,668             | 14,743            | -                                 | -                              |
| Board of Health Vaccine                    | 18,819                        | 57                | -                 | -                                 | 18,876                         |
| Community Preservation Fund                | 336,210                       | 66,840            | 7,850             | -                                 | 395,200                        |
| Conservation Commission                    | 3,400                         | 1,310             | 971               | -                                 | 3,739                          |
| Council on Aging MART Revolving            | 18,142                        | 23,536            | 17,026            | -                                 | 24,652                         |
| Demolition Revolving                       | 3,900                         | -                 | -                 | -                                 | 3,900                          |
| Dog Fees                                   | 4,557                         | 2,195             | 1,603             | -                                 | 5,149                          |
| Dog Officer                                | 231                           | -                 | -                 | -                                 | 231                            |
| Fire Department Burning Permits            | 1,526                         | 3,570             | 3,115             | -                                 | 1,981                          |
| Gifts and Donations                        | 124,355                       | 44,177            | 26,867            | -                                 | 141,665                        |
| Highway Revolving                          | -                             | 600               | 300               | -                                 | 300                            |
| Inspector Revolving                        | 59,167                        | 14,647            | 33,638            | -                                 | 40,176                         |
| Insurance Proceeds                         | 10,646                        | -                 | -                 | -                                 | 10,646                         |
| Law Enforcement Trust                      | 5,246                         | -                 | 178               | -                                 | 5,068                          |
| Library Dog Fund                           | 1,817                         | 728               | -                 | -                                 | 2,545                          |
| PEG Cable Access Grant                     | 70,030                        | 18,442            | 12,720            | -                                 | 75,752                         |
| Planning Board Revolving                   | 13,722                        | 12,860            | 15,267            | -                                 | 11,315                         |
| <b>Total Special Revenue Funds Page 51</b> | <b>\$ 848,195</b>             | <b>\$ 648,029</b> | <b>\$ 632,342</b> | <b>\$ -</b>                       | <b>\$ 863,882</b>              |

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

|   | Fund Balances<br>July 1, 2017 | Revenues          | Expenditures        | Other Financing<br>Sources (Uses) | Fund Balances<br>June 30, 2018 |
|---|-------------------------------|-------------------|---------------------|-----------------------------------|--------------------------------|
| <b>Continued from Page 51</b>               | \$ 848,195                    | \$ 648,029        | \$ 632,342          | \$ -                              | \$ 863,882                     |
| <b>Special Revenue (continued):</b>         |                               |                   |                     |                                   |                                |
| <b>Other (continued):</b>                   |                               |                   |                     |                                   |                                |
| Police Detail Revolving                     | 5,908                         | 157,796           | 155,614             | -                                 | 8,090                          |
| Recreation Revolving                        | 450                           | 831               | 371                 | -                                 | 910                            |
| Recycling Revolving                         | 6,152                         | 2,015             | 4,433               | -                                 | 3,734                          |
| Sale of Lots and Graves                     | 6,470                         | 4,660             | 6,070               | -                                 | 5,060                          |
| Septic Repair Program                       | 137,669                       | 3,600             | -                   | -                                 | 141,269                        |
| Transprotation infrastructure               | -                             | 6                 | -                   | -                                 | 6                              |
| Wetland Protection                          | 17,168                        | -                 | 398                 | -                                 | 16,770                         |
| <b>Total Special Revenue Funds</b>          | <b>1,022,012</b>              | <b>816,937</b>    | <b>799,228</b>      | <b>-</b>                          | <b>1,039,721</b>               |
| <b>Capital Projects:</b>                    |                               |                   |                     |                                   |                                |
| Highway vehicle                             | -                             | -                 | 149,333             | -                                 | (149,333)                      |
| Roadway designs and engineering             | 34,213                        | -                 | 9,915               | -                                 | 24,298                         |
| Route 68 reconstruction                     | -                             | -                 | 98,971              | 135,000                           | 36,029                         |
| <b>Total Capital Projects</b>               | <b>34,213</b>                 | <b>-</b>          | <b>258,219</b>      | <b>135,000</b>                    | <b>(89,006)</b>                |
| <b>Perpetual Permanent Funds:</b>           |                               |                   |                     |                                   |                                |
| Cemetery Perpetual Care                     | 134,191                       | -                 | -                   | -                                 | 134,191                        |
| Library Funds                               | 24,416                        | -                 | -                   | -                                 | 24,416                         |
| <b>Total Perpetual Permanent Funds</b>      | <b>158,607</b>                | <b>-</b>          | <b>-</b>            | <b>-</b>                          | <b>158,607</b>                 |
| <b>Permanent Funds:</b>                     |                               |                   |                     |                                   |                                |
| Cemetery Perpetual Care                     | 122,009                       | (1,984)           | 5,560               | -                                 | 114,465                        |
| Library Funds                               | 40,518                        | (519)             | -                   | -                                 | 39,999                         |
| Hubbardston Community Park                  | 11,934                        | (194)             | 1,347               | -                                 | 10,393                         |
| Other                                       | 14,865                        | (159)             | -                   | -                                 | 14,706                         |
| <b>Total Permanent Funds</b>                | <b>189,326</b>                | <b>(2,856)</b>    | <b>6,907</b>        | <b>-</b>                          | <b>179,563</b>                 |
| <b>Total - Non-Major Governmental Funds</b> | <b>\$ 1,404,158</b>           | <b>\$ 814,081</b> | <b>\$ 1,064,354</b> | <b>\$ 135,000</b>                 | <b>\$ 1,288,885</b>            |