

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
Financial Statements and Single Audit Reports
June 30, 2017 and 2016

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
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JUNE 30, 2017 AND 2016

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GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Templeton Municipal Water Department Commissioners
Templeton Municipal Water Department
Templeton, Massachusetts 01436

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Templeton, Massachusetts Municipal Water Department, an enterprise fund of the Town of Templeton, Massachusetts, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Town of Templeton, Massachusetts Municipal Water Department as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Town of Templeton, Massachusetts Municipal Water Department and do not purport to, and do not, present fairly the financial position of the Town of Templeton, Massachusetts, as of June 30, 2017 and 2016, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Other Postemployment Benefits information, and Net Pension Liability information on pages four through six and 34 through 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Templeton, Massachusetts Municipal Water Department's basic financial statements. The Schedules of Operations Expenses on page 37 is presented for purposes of additional analysis are is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedules of Operations Expenses and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 Schedule of Operations Expenses and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of the Town of Templeton, Massachusetts Municipal Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Templeton, Massachusetts Municipal Water Department's internal control over financial reporting and compliance.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts

January 9, 2018

Management's Discussion and Analysis

Within this section of the Town of Templeton, Massachusetts Municipal Water Department's annual financial report, management provides a narrative discussion and analysis of the financial activities of the Department for the years ending June 30, 2017 and 2016. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements

The Statements of Net Position are designed to indicate our financial position as of a specific point in time. On June 30, 2017 it shows our net worth has increased 26% over the year ending June 30, 2016.

The Statements of Revenues, Expenses, and Changes in Net Position summarize our operating results and reveals how much income was earned for the year. As discussed in more detail below, our income for June 30, 2017 and 2016 was \$565,701 and \$175,355, respectively.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financial activities for the same period. A review of our Statements of Cash Flows indicates that cash receipts from operating activities adequately cover our operating expenses.

Summary of Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 485,830	\$ 273,368
Noncurrent Assets	<u>7,538,165</u>	<u>6,364,543</u>
Total Assets	<u>8,023,995</u>	<u>6,637,911</u>
Deferred Outflows of Resources	<u>76,846</u>	<u>68,906</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,100,841</u>	<u>\$ 6,706,817</u>
Current Liabilities	\$ 850,172	\$ 634,167
Noncurrent Liabilities	<u>4,028,598</u>	<u>3,681,777</u>
Total Liabilities	<u>4,878,770</u>	<u>4,315,944</u>
Deferred Inflows of Resources	<u>464,513</u>	<u>199,016</u>
Net Position:		
Net Investment in Capital Assets	3,859,941	3,301,725
Net Position Restricted for Capital Project	14,098	14,098
Unrestricted	<u>(1,116,481)</u>	<u>(1,123,966)</u>
Total Net Position	<u>2,757,558</u>	<u>2,191,857</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 8,100,841</u>	<u>\$ 6,706,817</u>

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 1,523,690	\$ 1,449,015
Operating Expenses	<u>1,134,905</u>	<u>1,167,412</u>
Operating Income	388,785	281,603
Non-Operating Revenues (Expenses)	<u>176,916</u>	<u>(106,248)</u>
Change in Net Position	565,701	175,355
Net Position – July 1	<u>2,191,857</u>	<u>2,016,502</u>
Net Position – June 30	<u>\$ 2,757,558</u>	<u>\$ 2,191,857</u>

Financial Highlights

Operating revenues increased \$74,675 or 5.15% in 2017, primarily due to a full year at the increased water customer service and usage charges effective December 31, 2015. Revenue from metered sales and entrance fees has changed cyclically over the past few years.

Water Sales and Supply

The Water Department provides public water to 2,200 residences and businesses within the town of Templeton, Massachusetts. Water is pumped from a total of four wells, two on Maple Street in Baldwinville, one on Sawyer Street in East Templeton and another on Willow Street in Otter River.

Templeton Water sold 119,040,120 gallons of water to its 2,200 water customers in 2017. Templeton Water's focus over this past fiscal year has been continued regulatory compliance with the Massachusetts Department of Environmental Protection (MA DEP).

Utility Plant and Debt Administration:

Net utility plant increased by \$1,090,919 in fiscal year 2017. This increase represents the difference between the current year net additions of \$1,295,622 and the current fiscal year depreciation expense of \$200,422 and loss on dispositions in the amount of \$4,281.

In addition to a USDA loan the Water Department also received a USDA Grant in the amount of \$289,000 all proceeds were used to construct the Ladder Hill water storage tank.

Debt Administration

Over the past eleven years, the Water Department has incurred debt through Town-issued bonds for \$3,800,000 and \$2,300,000 as well as a U.S.D.A loan for \$332,000. These funds have been used to make several infrastructure improvements, including new water distribution mains, a new water storage tank in Baldwinville and a new water treatment facility in East Templeton. During fiscal year 2017, the Water Department incurred debt of \$950,000 through a U.S.D.A. loan. These funds have been used to replace the Ladder Hill water storage tank. Principal paid on the debt this fiscal year amount to \$313,297 for the bonds.

Interest and principal payments on debt have and will continue to be paid with revenue received from the sale of water.

Significant Balances and Transactions:

Shared Facilities

The Water Department has shared facilities and some administrative personnel with the Town of Templeton Municipal Light Plant. The Water Department pays its share of the salary, wages and benefits for the costs of shared personnel.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	\$ 64,076	\$ 14,051
Petty Cash	400	400
Accounts Receivable, Net	190,336	201,010
Other Accounts Receivable	180,894	116
Materials and Supplies	39,837	40,482
Prepaid Expenses	10,287	17,309
	<u>485,830</u>	<u>273,368</u>
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	191,835	109,132
Capital Fund	14,098	14,098
Utility Plant Assets, Net	7,332,232	6,241,313
	<u>7,538,165</u>	<u>6,364,543</u>
TOTAL NONCURRENT ASSETS		
	<u>8,023,995</u>	<u>6,637,911</u>
TOTAL ASSETS		
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions	76,846	68,906
	<u>76,846</u>	<u>68,906</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,100,841</u>	<u>\$ 6,706,817</u>

See Accompanying Notes to Financial Statements

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2017	2016
CURRENT LIABILITIES:		
Accounts Payable	\$ 153,547	\$ 23,405
Payable to Municipal Light Department	286,358	253,956
Current Portion of Long-Term Debt	363,297	313,297
Accrued Compensation	20,890	15,371
Accrued Interest Payable	26,080	28,138
TOTAL CURRENT LIABILITIES	850,172	634,167
NONCURRENT LIABILITIES:		
Other Postemployment Benefit Obligation	448,810	361,531
Net Pension Liability	470,794	797,955
Long-Term Debt, Less Current Portion	3,108,994	2,522,291
TOTAL NONCURRENT LIABILITIES	4,028,598	3,681,777
TOTAL LIABILITIES	4,878,770	4,315,944
DEFERRED INFLOWS OF RESOURCES:		
Deferred Inflows of Resources Related to Pensions	464,513	199,016
NET POSITION:		
Net Investment in Capital Assets	3,859,941	3,301,725
Net Position Restricted for Capital Project	14,098	14,098
Unrestricted Net Position	(1,116,481)	(1,123,966)
TOTAL NET POSITION	2,757,558	2,191,857
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 8,100,841	\$ 6,706,817

See Accompanying Notes to Financial Statements

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Metered Sales	\$ 1,480,600	\$ 1,413,656
Entrance Fees	15,411	10,000
Other Operating Revenues	<u>27,679</u>	<u>25,359</u>
 TOTAL OPERATING REVENUES	 <u>1,523,690</u>	 <u>1,449,015</u>
OPERATING EXPENSES:		
Operations	658,392	652,901
Maintenance	276,091	312,542
Depreciation	<u>200,422</u>	<u>201,969</u>
 TOTAL OPERATING EXPENSES	 <u>1,134,905</u>	 <u>1,167,412</u>
 OPERATING INCOME	 <u>388,785</u>	 <u>281,603</u>
NONOPERATING REVENUES (EXPENSES):		
Bond Issuance Costs	(3,700)	0
Grant Income	289,000	0
Interest Income	798	479
Miscellaneous Nonoperating Income	15,316	11,650
Loss from the Disposition of Utility Plant Assets	(4,282)	0
Interest Expense	<u>(120,216)</u>	<u>(118,377)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>176,916</u>	 <u>(106,248)</u>
 CHANGE IN NET POSITION	 565,701	 175,355
 NET POSITION - JULY 1	 <u>2,191,857</u>	 <u>2,016,502</u>
 NET POSITION - JUNE 30	 <u>\$ 2,757,558</u>	 <u>\$ 2,191,857</u>

See Accompanying Notes to Financial Statements

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 1,353,586	\$ 1,456,006
Cash Payments to Suppliers and Employees	(743,136)	(870,498)
Other Revenues Received	15,316	11,650
	<u>625,766</u>	<u>597,158</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	798	479
	<u>798</u>	<u>479</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to Plant and Construction	(1,295,623)	(163,387)
Bond Issuance Costs	(3,700)	0
Bond Proceeds	950,000	0
Grant Income	289,000	0
Payments on Bond Principal	(313,297)	(313,297)
Interest Paid on Bonds	(120,216)	(118,377)
	<u>(493,836)</u>	<u>(595,061)</u>
NET INCREASE IN CASH	132,728	2,576
CASH AND CASH EQUIVALENTS, JULY 1	<u>137,681</u>	<u>135,105</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 270,409</u></u>	<u><u>\$ 137,681</u></u>

See Accompanying Notes to Financial Statements

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 388,785	\$ 281,603
Miscellaneous Nonoperating Income	15,316	11,650
Depreciation	200,422	201,969
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	10,674	6,991
Other Accounts Receivable	(180,778)	0
Deferred Outflows of Resources Related to Pensions	(7,940)	(68,360)
Materials and Supplies	645	(1,547)
Prepaid Expenses	7,022	(11,095)
Increase (Decrease) in Liabilities:		
Accounts Payable	130,142	(11,474)
Accrued Expenses	5,519	0
Accrued Interest Payable	(2,058)	(2,165)
Deferred Inflows of Resources Related to Pensions	265,497	199,016
Net Pension Liability	(327,161)	(109,749)
Other Payables	32,402	16,963
Other Postemployment Benefits Obligation	87,279	83,356
	\$ 625,766	\$ 597,158
Net Cash Provided by Operating Activities	\$ 625,766	\$ 597,158

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flows:

	2017	2016
Operating Fund	\$ 64,076	\$ 14,051
Petty Cash	400	400
Depreciation cash designated for capital additions	191,835	109,132
Cash reserved for capital additions	14,098	14,098
	\$ 270,409	\$ 137,681

See Accompanying Notes to Financial Statements

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Town of Templeton, Massachusetts Municipal Water Department (“the Department”) are as follows:

Reporting Entity

Town of Templeton, Massachusetts Municipal Water Department is an enterprise fund and a component unit of the Town of Templeton, Massachusetts. The Department provides public water to residences and businesses within the town of Templeton, Massachusetts. The Municipal Water Department appoints a general manager who shall, under the direction of the Municipal Water Board, have full charge of the operation and management of the Department.

Basis of Presentation

Templeton Municipal Water Department’s financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Templeton Municipal Water Department is considered an enterprise fund of the Town of Templeton, Massachusetts. The operations of the Department are accounted for with a separate set of self-balancing accounts organized on a Proprietary Fund type (Enterprise Fund) basis.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Union Labor

Non-management labor is covered by a three year union contract which expired on June 30, 2016. The contract was renewed for an additional three years effective July 1, 2016 and expires on June 30, 2019.

Water Plant and Depreciation

Depreciation is computed on a straight-line basis over the estimated useful lives of the Department’s assets. Estimated useful lives of the Department’s assets range from 5 to 60 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Materials and Supplies

Materials and supplies inventory consists of parts and accessories purchased for installations required for service, and are stated at average cost.

Taxes

The Municipal Water Department is exempt from federal and state income taxes as well as property taxes.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Municipal Water Department considers amounts on deposit with the Town Treasurer as cash and cash equivalents.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prepayments

Prepayments consist of prepaid expenses attributable to insurance.

Accounts Receivable Customers

The Municipal Water Department carries its accounts receivable in full, allocating a portion of the total to liens which are placed for collection with the Town Treasurer to properly reflect the realizable value. On a periodic basis, the Department evaluates its accounts receivable and reviews accounts placed for liens, based on its history of past write-offs and collections and determines if the recording of an allowance for uncollectible accounts is necessary. No allowance has been recorded as of June 30, 2017 and 2016, respectively.

The Department's policy on collections is to consider any receivable past due if payments have not been received within thirty days of the invoice due date.

Advertising Costs

The Department expenses advertising costs as incurred. Advertising expense was \$249 and \$561 for the years ended June 30, 2017 and 2016, respectively.

Compensated Absences

Templeton Municipal Water Department's employment benefit plan provides that employees are entitled to a minimum of five vacation days per year up to thirty days per year depending on years of service and employment classification. Employees are allowed to accumulate up to one week of unused vacation to the following year. Upon retirement, employees eligible under years of service or age and service are paid up to 25 days accumulation sick-time maximum.

Pensions

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 (System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent a consumption of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/expenditure) until then.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reclassification

Certain prior year amounts have been reclassified to conform to the 2017 presentation.

Operating Revenue

Operating revenue includes revenues and expenses related to the continuing operations of the Department. Principal operating revenues are charges to customers for sales of water or services. Operating expenses are the costs of providing water and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

NOTE 2 – UNBILLED REVENUES:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

NOTE 3 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is required to be implemented for periods beginning after June 15, 2017. The Water Department is currently evaluating the effect this pronouncement will have on the basic financial statements.

NOTE 4 – CONCENTRATION OF CREDIT RISK:

The Department's funds are deposited with the Town and are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Department. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Department deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

NOTE 5 – GRANT

During 2017, the Department was awarded a grant of \$289,000 for the construction of a water tank from the United States Department of Agriculture (USDA). This program will help upgrade and help continue a reliable water distribution system. As of June 30, 2017, the Department has received \$108,222 of grant funding and has a grant receivable in the amount of \$180,778. Grant expenditures as of June 30, 2017 were \$289,000.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 – CASH:

At June 30, funds on deposit with the Town Treasurer available for Templeton Municipal Water Department's use were:

	2017	2016
Funds for General Operation	\$ 64,076	\$ 14,051
Petty Cash	400	400
Funds Reserved for Future Plant and Equipment Additions – Depreciation Cash	191,835	109,132
Funds Reserved for Future Plant and Equipment Additions – Restricted for Capital Additions	14,098	14,098
	\$ 270,409	\$ 137,681

State and local statutes place certain limitations on the nature of deposits and investments to the Town. Generally, the treasurer of the Town is authorized to invest in the following investments: national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations.

NOTE 7 – ACCOUNTS RECEIVABLE:

Accounts Receivable - Customers consists of the following:

	2017	2016
Accounts Receivable, Customers	\$ 183,262	\$ 193,158
Accounts Receivable, Customer Liens	7,074	7,852
Accounts Receivable Customers, Net	\$ 190,336	\$ 201,010

NOTE 8 – RELATED PARTY TRANSACTIONS:

The Department occupies common administration space with the Town of Templeton Municipal Light Plant, and certain administrative duties are performed by employees of the Light Plant. The Department reimburses the Light Plant for certain employees' labor and for certain expenses. Reimbursements for 2017 and 2016 were \$34,402 and \$16,963, respectively. The Light Plant owns the building in which the Department occupies space. The Light Plant does not charge rent to the Department.

The Department is owned by the Town of Templeton. Water sales to municipal buildings included in revenues was approximately \$4,306 and \$3,887 for June 30, 2017 and 2016, respectively. Accounts receivable from these departments was \$0 and \$106 for June 30, 2017 and 2016, respectively.

The Department reimburses the town for various employee benefits and services, including health insurance and Worcester Regional Retirement. For the years ended June 30, 2017 and 2016, the total amounts paid for these services were \$130,923 and \$134,496, respectively. At June 30, 2017 and 2016, amounts payable to the town were \$18,705 and \$7,767, respectively.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 9 – LONG-TERM DEBT:

	2017	2016
General Obligation Bond, of \$3,800,000, issued June 15, 2003; interest ranging from 2.60% to 4.00%, due in annual installments of \$190,000. The final payment is due June 2023.	\$ 1,140,000	\$ 1,330,000
General Obligation Bond, of \$2,300,000, issued September 1, 2006; interest at 4.75%, due in annual installments of \$115,000. The final payment is due September 2027.	1,150,000	1,265,000
USDA Bond, of \$331,885, issued August 27, 2004, interest at 4.625%, due in annual installments of \$8,297. The final payment is due September 2045.	232,291	240,588
USDA Bond, of \$950,000, issued September 28, 2016, interest at 2.25%, due in annual installments of \$50,000. The final payment is due June 2036.	950,000	0
Total Long-Term Debt	3,472,291	2,835,588
Less: Current Portion Long-Term Debt	(363,297)	(313,297)
	\$ 3,108,994	\$ 2,522,291

Future payments on long-term debt are:

	Principal	Interest	Total
2018	\$ 363,297	\$ 118,911	\$ 482,208
2019	363,297	106,095	469,392
2020	363,297	93,051	456,348
2021	363,297	79,818	443,115
2022	363,297	66,391	429,688
2023-2027	1,056,485	172,887	1,229,372
2028-2032	291,485	70,068	361,553
2033-2037	241,485	32,350	273,835
2038-2042	41,485	11,596	53,081
2043-2045	24,866	2,299	27,165
	\$ 3,472,291	\$ 753,465	\$ 4,225,756

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 – UTILITY PLANT ASSETS:

	Balance <u>July 1, 2016</u>	Increases	Decreases	Balance <u>June 30, 2017</u>
Capital Assets Noting Being Depreciated:				
Construction in Progress	\$ 104,000	\$ -	\$ (104,000)	\$ -
Capital Assets Being Depreciated:				
Infrastructure	\$ 8,105,162	\$ 1,353,090	\$ (38,115)	\$ 9,420,137
Machinery and Equipment	593,657	46,532	-	640,189
Total Capital Assets being Depreciated	<u>8,698,819</u>	<u>1,399,622</u>	<u>(38,115)</u>	<u>10,060,326</u>
Less Accumulated Depreciation for:				
Infrastructure	(2,109,700)	(161,388)	33,834	(2,237,254)
Machinery and Equipment	<u>(451,806)</u>	<u>(39,034)</u>	-	<u>(490,840)</u>
Total Accumulated Depreciation	<u>(2,561,506)</u>	<u>(200,422)</u>	<u>33,834</u>	<u>(2,728,094)</u>
Capital Assets Being Depreciated, Net	<u>6,137,313</u>	<u>1,199,200</u>	<u>(4,281)</u>	<u>7,332,232</u>
Utility Plant Assets, Net	<u>\$ 6,241,313</u>	<u>\$ 1,199,200</u>	<u>\$ (108,281)</u>	<u>\$ 7,332,232</u>

NOTE 11 – NET INVESTMENT IN CAPITAL ASSETS:

	<u>2017</u>	<u>2016</u>
Cost of Capital Assets Acquired	\$ 10,060,326	\$ 8,698,819
Less: Accumulated Depreciation	(2,728,094)	(2,561,506)
Less: Outstanding Debt Related to Capital Assets	<u>(3,472,291)</u>	<u>(2,835,588)</u>
Net Investment in Capital Assets	<u>\$ 3,859,941</u>	<u>\$ 3,301,725</u>

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS:

The Department implemented GASB Statement 45, *Accounting for Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* effective July 1, 2009. As allowed by GASB 45, the Department has applied the measurement recognition requirements of GASB 45 on a prospective basis.

Plan Description: The Department participates in the town sponsored single employer defined benefit health plan. The Department provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

At July 1, 2014, the date of the latest actuarial report, the Department’s membership in the plan consisted of the following:

Current retirees and beneficiaries	2	
Current active members	<u>5</u>	
Total		<u><u>7</u></u>

Funding Policy: The Department recognizes the cost of providing these benefits, in accordance with government accounting standards, on a pay-as-you-go basis, by expensing the annual insurance premiums charged to the Department by the Town of Templeton, which aggregated approximately \$111,779 and \$90,597 for June 30, 2017 and 2016, respectively. Retired plan members and beneficiaries currently receiving benefits are required to contribute 25% of the premium cost for their post-retirement medical costs and life insurance costs. The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. Neither the town nor the Department has established a Trust to accept funding for OPEB liabilities.

Annual OPEB Costs: The Department’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following shows the components of the Water Department’s annual OPEB costs for the years ending June 30, 2017 and 2016 the amount actually contributed to the plan, and changes in net OPEB obligation based on the actuarial valuation as of July 1, 2014:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 62,305	\$ 60,802
Interest on net OPEB obligation	14,461	11,126
Adjustments to annual required contribution	(20,102)	(15,468)
Amortization of actuarial (Gain)/Losses	<u>41,778</u>	<u>37,144</u>
Annual OPEB expense	98,442	93,604
Expected benefit payments	<u>(11,163)</u>	<u>(10,248)</u>
Increase in net OPEB obligation	87,279	83,356
Net OPEB obligation, Beginning of year	<u>361,531</u>	<u>278,175</u>
Net OPEB obligation, End of year	<u>\$ 448,810</u>	<u>\$ 361,531</u>

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued):

The Department’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 88,905	9.3%	\$ 278,175
2016	\$ 93,604	10.9%	\$ 361,531
2017	\$ 98,442	11.3%	\$ 448,810

Funding Status and Funding Progress: Actual valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status is as follows:

	<u>2017</u>
Actuarial accrued liability (AAL)	\$ 1,029,645
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability	<u>\$ 1,029,645</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 381,136
Funded ratio (actuarial value of plan assets/AAL)	270.15%

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

Actuarial Methods and Assumptions: In the July 1, 2014 actuarial valuation, actuarial liabilities were determined using the projected unit cost method. The actuarial methods and assumptions include an annual health cost rate trend of 5%. The UAAL is being amortized over 30 years at a level dollar amount.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 – PENSION PLAN:

Plan Description-The Water Department, through the Town of Templeton, is a member of the Worcester Regional Retirement System which, in turn, is a member of the Massachusetts Contributory Retirement System which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a cost-sharing multiple-employer contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by teachers' retirement board. The Plan's separately issued financial statements can be obtained by contacting Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Benefits Provided-The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of member's highest three-year average annual rate of regular compensation. For members who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service if hired after 1978 and if classified in group 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 55 years of age with 10 years of service if in group 2, and 55 years of age if classified in group 4 or hired prior to 1978. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors: including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification.

Employees who resign from state 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 contributions. 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 increase 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.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 – PENSION PLAN (Continued):

Contributions- Active members are required to contribute at rates from 5-9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above \$30,000. The Department is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the member units based on the actuarial study. The actuarially determined Department contribution is an amount, when combined with employee contributions, is expected to finance the cost of benefits earned by the employees during the year, with an additional amount to finance the unfunded liability. The Department's contributions to the System for the years ended June 30, 2017 and 2016 were \$27,303 and \$50,576, respectively, which equaled its required contributions for each year.

Pension Liabilities- At June 30, 2017 and 2016, the Water Department reported a liability of \$470,794 and \$797,955, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of January 1, 2016 and 2014. 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 member units. At December 31, 2016 and 2015, the Town's proportion was 1.366% and 1.362%, respectively.

The Department's portion of the net pension liability was based on the percentage of the Department's payroll to the total Town's payroll as of the measured date of December 31, 2016 and 2015. At the measured date of December 31, 2016 and 2015, the Department's portion was 4.114% and 8.256% of the Town's total payroll, respectively.

Pension Income (Expense)- For the years ended June 30, 2017 and 2016 the Department recognized a pension income (expense) of \$42,958 and (\$81,032), respectively. For the years ended June 30, 2017 and 2016, the Department reported deferred inflows of resources related to pensions of \$464,513 and \$199,016, respectively, consisting of the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan and Department level. For the years ended June 30, 2017 and 2016, the Department reported deferred outflows of resources related to pensions of \$76,846 and \$68,906, respectively, consisting of the differences between projected and actual experience in the amount of \$3,839 and zero, respectively, consisting of the net difference between projected and actual investment earnings in the amount of \$16,337 and \$39,403, respectively, consisting of the changes of assumptions \$55,687 and \$29,503, respectively, consisting of the changes in proportion and differences between employer contributions and proportionate share of contributions at the Plan level in the amount of \$983 and zero, respectively.

The Department's net deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the table on the following page:

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 – PENSION PLAN (Continued):

<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
Year Ended June 30:		Year Ended June 30:	
2018	\$ 18,327	2018	\$ 100,214
2019	18,327	2019	100,214
2020	18,277	2020	100,214
2021	13,270	2021	99,214
2022	<u>8,645</u>	2022	<u>64,657</u>
Total	<u>\$ 76,846</u>	Total	<u>\$ 464,513</u>

Actuarial Assumptions-The total pension liability as of June 30, 2017 and 2016 was determined by an actuarial valuation as of January 1, 2016 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	<p><i>Unfunded Actuarial Accrued Liability (UAL):</i> Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 9.95%.</p> <p><i>Early Retirement Incentive Programs (ERI) for 2002 and 2003:</i> Increasing dollar amount at 4.5% to reduce the Unfunded Actuarial Accrued Liability attributable to zero on or before June 30, 2028.</p> <p><i>Early Retirement Incentive Program (ERI) for 2010:</i> Level dollar amount to reduce the Unfunded Actuarial Accrued Liability attributable to ERI to zero on or before June 30, 2022.</p>
Remaining Amortization Period	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 – PENSION PLAN (Continued):

Actuarial Assumptions (Continued):

Asset Valuation Method	The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of: <ol style="list-style-type: none"> a. 80% of gains and losses of the prior year, b. 60% of gains and losses of the second prior year, c. 40% of gains and losses of the third prior year and d. 20% of gains and losses of the fourth prior year
Inflation Rate	3% per year
Projected Salary Increases	Group 1: 6%-4.25%, based on Service Group 4: 7%-4.75%, based on Service
Cost of Living Allowance	3% COLA was paid on a chase of \$16,000 (maximum \$510).
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Healthy Retirees	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled Retirees	RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Annuity Savings Fund Interest Rate	2.00% per year
Administrative Expenses	\$1,100,000 in 2016, increasing 4% per year

Investment Policy- The Plan’s asset allocation policies are established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the Plan.

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 category asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 13 – PENSION PLAN (Continued):

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 asset class included in the pensions plan’s target asset allocation as of the measured date of December 31, 2016 are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	40%	4.97%
Fixed Income	22%	2.29%
Private Equity	11%	6.50%
Real Estate	10%	3.50%
Timber/Natural Resources	4%	3.00%
Hedge Funds	13%	3.48%

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 contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate- The following presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Proportionate share of the Net Pension Liability	\$ 567,079	\$ 470,795	\$ 389,517

Pension Plan Fiduciary Net Position- Detailed information about the pension plan’s fiduciary net position is available in the separately issued Worcester Regional Retirement System financial report.

GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Templeton Municipal Water Department Commissioners
Templeton Municipal Water Department
Templeton, Massachusetts 01436

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Templeton, Massachusetts Municipal Water Department as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Town of Templeton, Massachusetts Municipal Water Department's basic financial statements and have issued our report thereon dated January 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Templeton, Massachusetts Municipal Water Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Templeton, Massachusetts Municipal Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Templeton, Massachusetts Municipal Water Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The finding numbers are 2017-01, 2017-02 and 2017-03.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Templeton, Massachusetts Municipal Water Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Templeton, Massachusetts Municipal Water Department Response to Findings

Town of Templeton, Massachusetts Municipal Water Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Templeton, Massachusetts Municipal Water Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts

January 9, 2018

GOULET, SALVIDIO
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

To the Templeton Municipal Water Department Commissioners
Templeton Municipal Water Department
Templeton, Massachusetts 01436

Report on Compliance for the Major Federal Program

We have audited the Town of Templeton, Massachusetts Municipal Water Department's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect the Town of Templeton, Massachusetts Municipal Water Department's major federal program for the year ended June 30, 2017. Town of Templeton, Massachusetts Municipal Water Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Templeton, Massachusetts Municipal Water Department's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Templeton, Massachusetts Municipal Water Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town of Templeton, Massachusetts Municipal Water Department's compliance.

Opinion on the Major Federal Program

In our opinion, the Town of Templeton, Massachusetts Municipal Water Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

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Report on Internal Control over Compliance

Management of the Town of Templeton, Massachusetts Municipal Water Department, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Templeton, Massachusetts Municipal Water Department's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Templeton, Massachusetts Municipal Water Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
January 9, 2018

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Agency/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<i>United States Department of Agriculture</i>		
Water and Waste Disposal Systems for Rural Communities-Loan	10.760	\$ 950,000
Water and Waste Disposal Systems for Rural Communities-Grant	10.760	<u>289,000</u>
Total Federal Awards Expenditures		<u><u>\$ 1,239,000</u></u>

See Notes to the Schedule of Expenditures of Federal Awards

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal awards and the federal grant activity of the Town of Templeton, Massachusetts Municipal Water Department under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the Town of Templeton, Massachusetts Municipal Water Department, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Templeton, Massachusetts Municipal Water Department.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES:

The Schedule of Expenditures of Federal Award is prepared on the same basis of accounting as the Department's financial statements. The Department uses accrual basis of accounting. Expenditures represent only the federally funded portion of the program.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

1. Summary of Auditors' Results

a. Financial statements

Type of auditors' report issued on the financial statements: Unmodified

Internal control over financial Reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes No
- Noncompliance material to the financial statements noted? Yes No

b. Federal Awards

Internal control over major program:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered material weaknesses? Yes No

Type of auditors' report issued on compliance for the major program: Unmodified

Any Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of Major Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Funding Source</u>
10.760	Water and Waste Disposal Systems for Rural Communities	USDA

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133? Yes No

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

2. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*.

The following findings represent significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

Finding 2017-01 Segregation of Duties

Statement of Condition:

Significant Deficiency - The Department does not have sufficient staff base to properly segregate accounting functions.

Criteria:

Proper internal controls over accounting transactions would include the ability to segregate certain accounting functions in order to protect assets.

Effect:

The results of our tests revealed no questioned costs.

Cause:

The Office Manager records all financial transactions.

Recommendation:

Both the General Manager and Office Manager should be involved in the daily financial affairs of the Department to include monthly ledgers, financial statements, bank statements and bank reconciliations.

Corrective Plan:

The Department will strive to segregate as many accounting functions as practical with the limited staff available.

Findings 2017-02 Accounting Manual

Statement of Condition:

Significant Deficiency - The Department does not have a complete accounting manual that covers all of the accounting functions.

Criteria:

Proper internal controls over monitoring would include the preparation of a complete accounting manual.

Effect:

In the absence of key accounting personnel, employees would not have a guide to follow that covers all major accounting functions.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Findings 2017-02 Accounting Manual (Continued):

Cause:

The Department does not have a complete accounting manual.

Recommendation:

The Department should develop a formal checklist documenting the monitoring of control over the financial reports.

Corrective Plan:

The Department agrees with this recommendation and will develop an accounting manual to illustrate its accounting functions.

Findings 2017-03 Drafting of Financial Statements

Statement of Condition:

Significant Deficiency - The Department does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria:

Proper internal controls over financial reporting would include the ability to prepare financial statements included footnote disclosures.

Effect:

Although this circumstance is not unusual for a Department of this size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statements disclosures not being available for management purposes as timely as it would be if prepared by Department personnel.

Cause:

The personnel of the Department do not possess the knowledge or tools to prepare financial statement footnotes and required schedules.

Recommendation:

The Department should appoint a competent individual who possesses the skill knowledge and experience to review and approve the draft reports and assume all relevant management responsibilities.

Corrective Plan:

The Department will strive to gain necessary knowledge needed to prepare a full set of financial statements and Single Audit required schedules. We will appoint a competent individual who possesses the skill knowledge and experience to review and approve the draft reports and assume all relevant management responsibilities.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress - Other Postemployment Benefits

Actuarial Valuation Date	For the Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Total Payroll	UAAL as a Percentage of Payroll
7/1/2010	6/30/2011	\$ -	\$ 429,607	\$ 429,607	0.00%	\$ 287,034	149.67%
7/1/2011	6/30/2012	\$ -	\$ 465,322	\$ 465,322	0.00%	\$ 288,530	161.27%
7/1/2011	6/30/2013	\$ -	\$ 503,204	\$ 503,204	0.00%	\$ 296,227	169.87%
7/1/2011	6/30/2014	\$ -	\$ 543,433	\$ 543,433	0.00%	\$ 291,007	186.74%
7/1/2014	6/30/2015	\$ -	\$ 888,659	\$ 888,659	0.00%	\$ 307,070	289.40%
7/1/2014	6/30/2016	\$ -	\$ 958,036	\$ 958,036	0.00%	\$ 365,922	261.81%
7/1/2014	6/30/2017	\$ -	\$ 1,029,645	\$ 1,029,645	0.00%	\$ 381,136	270.15%

Schedule of Actuarial Methods and Assumptions

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Actuarial Methods:

Valuation Date	7/1/2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30 year Level Dollar Basis
Remaining Amortization Period	22 years

Actuarial Assumptions:

Assumed Retirement	Age 65
Discount Rate	4.00%
Projected Salary Increases	3.00%
Healthcare Cost Trend Rate	5.00%

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

Schedule of the Department's Proportionate Share of the Net Pension Liability (NPL)

Actuarial Valuation Date	Measurement Date	For the Year Ending	Department's Portion of the NPL	Department's Proportionate Share of the NPL	Department's Total Employee Payroll	NPL as a Percentage of Total Employee	Department's Proportionate Share of the Plan's Fiduciary NPL as a Percentage of the Department's Total Pension Liability
1/1/2014	12/31/2014	6/30/2015	0.1525%	\$ 907,704	\$ 348,393	260.50%	47.94%
1/1/2014	12/31/2015	6/30/2016	0.1124%	\$ 797,955	\$ 365,922	218.07%	44.52%
1/1/2016	12/31/2016	6/30/2017	0.0562%	\$ 470,795	\$ 381,136	123.52%	42.00%

Schedule of Contributions

Actuarial Valuation Date	Measurement Date	For the Year Ending	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Department's Total Employee Payroll	Contribution as a Percentage of Department's Total Employee Payroll
1/1/2014	12/31/2014	6/30/2015	\$ 60,282	\$ (60,282)	\$ -	\$ 348,393	17.30%
1/1/2014	12/31/2015	6/30/2016	\$ 50,576	\$ (50,576)	\$ -	\$ 365,922	13.82%
1/1/2016	12/31/2016	6/30/2017	\$ 27,303	\$ (27,303)	\$ -	\$ 381,136	7.16%

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

See Independent Auditors' Report

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
NET PENSION LIABILITY

Changes of Assumptions

Some actuarial assumptions and methods used in the January 1, 2016 valuation have changed since the last valuation, including adopting new mortality tables and mortality improvement scales, increasing the salary increase assumption for all employees, increasing administrative expense assumption from \$1,000,000 to \$1,100,000, and decreasing the long-term rate of return from 8% to 7.75%.

See Independent Auditors' Report

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER DEPARTMENT
SCHEDULES OF OPERATIONS EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATIONS EXPENSES:		
Chemical and Water Testing Expenses	\$ 57,382	\$ 44,461
Electricity	62,918	68,710
Insurance	27,596	29,434
Materials and Supplies	43,474	17,952
Miscellaneous	17,595	13,601
Office Expense	24,539	20,203
Outside Services	20,121	13,994
Salaries and Benefits	394,947	437,396
Transportation	9,820	7,150
TOTAL OPERATIONS EXPENSES	\$ 658,392	\$ 652,901

See Independent Auditors' Report