

**TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER PLANT**

Annual Financial Statements

For the Year Ended June 30, 2018

Templeton Municipal Water Plant

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INDEPENDENT AUDITORS' REPORT

To the Board of Water Commissioners
Town of Templeton Municipal Water Plant

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Town of Templeton Municipal Water Plant (an enterprise fund of the Town of Templeton), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Plant's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Town of Templeton Municipal Water Plant, as of June 30, 2018, and the respective changes in financial position and cash flows thereof, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 24 to 26 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 Plant's basic financial statements. The accompanying supplementary statement and schedule appearing on page 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Melanson Heath

December 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Templeton Municipal Water Plant's (the "Plant") annual financial report, management provides a narrative discussion and analysis of the financial activities for the year ended June 30, 2018. The Plant's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, (3) the Statement of Cash Flows, and (4) Notes to Financial Statements.

The Statement of Net Position is designed to indicate our financial position as of a specific point in time. At June 30, 2018, it shows our net worth of \$2,117,617, which comprises \$4,076,963 invested in capital assets and \$(1,959,346) unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes our operating results and reveal how much, if any, of a profit was earned for the year. Our increase in net position for the year ended June 30, 2018 was \$376,035.

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

SUMMARY OF NET POSITION

Current assets	\$ 555,505
Noncurrent assets	7,319,536
Deferred Outflows of Resources	<u>95,577</u>
Total assets and deferred outflows	7,970,618
Current liabilities	840,620
Noncurrent liabilities	4,497,043
Deferred inflows of Resources	<u>515,338</u>
Total liabilities and deferred inflows	5,853,001
Net position:	
Net investment in capital assets	4,076,963
Unrestricted	<u>(1,959,346)</u>
Total net position	<u>\$ 2,117,617</u>

SUMMARY OF CHANGES IN NET POSITION

Operating revenues	\$ 1,490,234
Operating expenses	<u>(1,014,877)</u>
Operating income	475,357
Non-operating revenues (expenses)	<u>(99,322)</u>
Change in net position	376,035
Beginning net position, as restated	<u>1,741,582</u>
Ending net position	<u><u>\$ 2,117,617</u></u>

B. FINANCIAL HIGHLIGHTS

Water sales were \$1,445,233 in fiscal 2018, a decrease of 2.4% from the prior year.

Operating expenses totaled \$1,014,877 in fiscal 2018, a decrease of 10.6%. The largest portion of operating expenses, \$501,465, was for salaries and benefits costs. Other operating expenses included \$280,436 in general operating and maintenance costs and \$232,976 in depreciation expense.

C. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Total investment in capital assets at year-end amounted to \$7,185,956 (net of accumulated depreciation), a decrease of \$146,276 from the prior year. This investment in capital assets includes machinery, equipment, and infrastructure.

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$3,108,994, all of which was backed by the full faith and credit of the Plant.

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

REQUESTS FOR INFORMATION

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

Office of Manager
Templeton Municipal Water Plant
86 Bridge Street
Baldwinville, Massachusetts 01436-0020

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER PLANT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF NET POSITION

June 30, 2018

ASSETS

Current:

Unrestricted cash and short-term investments	\$	332,273
Receivables		173,378
Prepaid expenses		7,835
Inventory		<u>42,019</u>
Total current assets		555,505

Noncurrent:

Restricted cash and investments		133,580
Capital assets:		
Other capital assets, net of accumulated depreciation		<u>7,185,956</u>
Total noncurrent assets		7,319,536

DEFERRED OUTFLOWS OF RESOURCES

Related to pensions		70,577
Related to OPEB		<u>25,000</u>

**TOTAL ASSETS AND DEFERRED
OUTFLOWS OF RESOURCES**

7,970,618

LIABILITIES

Current:

Accounts payable		125,283
Accrued liabilities		35,121
Due to Light Plant		316,919
Current portion of long-term liabilities:		
Bonds payable		<u>363,297</u>
Total current liabilities		840,620

Noncurrent:

Bonds payable, net of current portion		2,745,697
Net pension liability		680,505
Total OPEB liability		1,052,315
Accrued employee compensated absences		<u>18,526</u>
Total noncurrent liabilities		4,497,043

DEFERRED INFLOWS OF RESOURCES

Related to pensions		106,550
Related to OPEB		<u>408,788</u>

**TOTAL LIABILITIES AND DEFERRED
INFLOWS OF RESOURCES**

5,853,001

NET POSITION

Net investment in capital assets		4,076,963
Unrestricted		<u>(1,959,346)</u>
TOTAL NET POSITION	\$	<u>2,117,617</u>

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

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER PLANT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

Operating Revenues:	
Water sales	\$ 1,445,233
Entrance Fees	20,514
Other	<u>24,487</u>
Total Operating Revenues	1,490,234
Operating Expenses:	
Operations	501,465
Maintenance	280,436
Depreciation	<u>232,976</u>
Total Operating Expenses	<u>1,014,877</u>
Operating Income	475,357
Nonoperating Revenues (Expenses):	
Bond issuance costs	(40)
Interest income	955
Interest expense	(118,527)
Other	<u>18,290</u>
Total Nonoperating Revenues (Expenses)	<u>(99,322)</u>
Change in Net Position	376,035
Net Position at Beginning of Year, as restated	<u>1,741,582</u>
Net Position at End of Year	<u>\$ 2,117,617</u>

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

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER PLANT

BUSINESS-TYPE PROPRIETARY FUND
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 1,688,086
Payments to vendors and employees	<u>(943,322)</u>
Net Cash Provided By (Used For) Operating Activities	744,764
<u>Cash Flows From Noncapital Financing Activities:</u>	
Other	<u>18,290</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	18,290
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(86,700)
Principal payments on bonds	(363,297)
Bond issuance costs	(40)
Interest expense	<u>(118,527)</u>
Net Cash (Used For) Capital and Related Financing Activities	(568,564)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>955</u>
Net Cash Provided By (Used For) Investing Activities	<u>955</u>
Net Change in Cash and Short-Term Investments	195,445
Total Cash and Short Term Investments, Beginning of Year	<u>270,408</u>
Total Cash and Short Term Investments, End of Year	<u>\$ 465,853</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash:</u>	
Operating income	\$ 475,357
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	232,976
Changes in assets, liabilities, and deferred outflows/inflows:	
Accounts receivable	197,852
Prepaid expenses	2,452
Inventory	(2,182)
Deferred outflows - related to pensions	6,269
Deferred outflows - related to OPEB	(25,000)
Accounts payable	(28,264)
Accrued liabilities	9,041
Due to other entities	30,561
Net pension liability	209,711
Total OPEB liability	(412,471)
Other liabilities	(2,363)
Deferred inflows - related to pensions	(357,963)
Deferred inflows - related to OPEB	<u>408,788</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 744,764</u>

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

**TOWN OF TEMPLETON
MUNICIPAL WATER PLANT**

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The significant accounting policies of the Town of Templeton Municipal Water Plant (the Plant) (an enterprise fund of the Town of Templeton) are as follows:

A. Reporting Entity

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

B. Business Activity

The Plant distributes public water to residences and businesses within the Town of Templeton, Massachusetts.

C. Basis of Accounting

The operations of the Plant are accounted for as an enterprise fund. The Plant's financial statements are reported on an accrual basis of accounting as specified by the GASB requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognized expenses when the related liability is incurred, regardless of when the related cash flow takes place.

D. Operating Revenues

Operating revenue includes revenues and expenses related to the continuing operations of the Plant. 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.

E. Cash and Short-term Investments

For the purposes of the Statement of Cash Flows, the Plant considers both restricted and unrestricted cash on deposit with the Town Treasurer. For

purposes of the Statement of Net Position, the Plant considers investments with original maturities of three months or less to be short-term investments.

F. Inventory

Inventory consists of supplies and materials purchased for use in the utility business for construction, operation, and maintenance purposes. Inventory is stated at average cost.

G. Capital Assets and Depreciation

Capital assets, which include equipment and infrastructure, are recorded at historical cost or estimated historical cost when purchased or constructed.

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

Major outlays for capital assets and improvements are capitalized as they are acquired or constructed. When capital assets are retired, the cost of the retired asset, less accumulated depreciation, salvage value, and any cash proceeds, is charged to the Plant's unrestricted net position account.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the Plant's assets. Estimated useful lives of the Plant's assets range from 5 to 60 years.

H. Accrued Compensated Absences

In accordance with Water Plant policies, employees are allowed to accumulate sick days, up to an unlimited amount. Upon retirement from employment with the Water Plant, the employee will be paid 25% for accumulated sick time to a maximum of 25 days. Upon termination, the employee will not be paid for accumulated sick time. Employees are permitted to carry over up to one week of vacation time from one year to the next. Upon termination of employment with the Water Plant, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination.

The Plant's policy is to recognize vacation costs when earned. The Plant records accumulated unused vested vacation and sick pay as a liability. The amount recorded is the amount to be paid at termination at the current rate of pay.

I. 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.

2. Unrestricted Cash and Short-Term Investments

Custodial Credit Risk

Custodial Credit Risk for *deposits* is the risk that, in the event of the failure of a depository institution, the Plant will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2018 the Plant had a bank balance of \$418,456 subject to custodial Credit risk.

3. Restricted Cash and Investments

Restricted Cash and Investments – Proprietary Fund

The Plant maintains the following restricted cash and investments in its proprietary fund:

Capital fund	\$ 14,100
Depreciation fund	<u>119,480</u>
Total	<u><u>\$ 133,580</u></u>

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2018:

User charges receivable:	
Billed	\$ <u>173,262</u>
Subtotal	173,262
Other receivables:	
Other	<u>116</u>
Subtotal	<u>116</u>
Total	<u><u>\$ 173,378</u></u>

5. Prepaid Expenses

Prepaid expenses for the Plant consist primarily of insurance.

6. Inventory

Inventory comprises supplies and materials and is valued at average cost.

7. Capital Assets

Capital assets consist of the following at June 30, 2018 (net of accumulated depreciation):

The following is a summary of fiscal year 2018 activity in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Infrastructure	\$ 9,420,137	\$ 84,965	\$ (30,561)	\$ 9,474,541
Machinery and equipment	640,189	1,735	-	641,924
Total capital assets, being depreciated	10,060,326	86,700	(30,561)	10,116,465
Less accumulated depreciation for:				
Infrastructure	(2,236,150)	(185,167)	30,561	(2,390,756)
Machinery and equipment	(491,944)	(47,809)	-	(539,753)
Total accumulated depreciation	(2,728,094)	(232,976)	30,561	(2,930,509)
Total capital assets, being depreciated, net	7,332,232	(146,276)	-	7,185,956
Business-type activities capital assets, net	\$ 7,332,232	\$ (146,276)	\$ -	\$ 7,185,956

8. Deferred Outflows of Resources

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

9. Accounts Payable

Accounts payable represent fiscal 2018 expenses that were paid after June 30, 2018.

10. Accrued Employee Compensated Absences

Plant employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, employees or their beneficiaries are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rate of pay.

11. Long-Term Debt

A. General Obligation Bonds

The Templeton Municipal Water Plant issues through the Town of Templeton general obligation and USDA bonds to provide funds for the acquisition and construction of major capital facilities. General obligation and USDA bonds currently outstanding are as follows:

<u>Templeton Municipal Water Plant</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
General obligation bonds	09/01/26	4.75%	\$ 1,035,000
General obligation bonds	06/15/23	2.60-4.00%	950,000
USDA bonds	09/01/45	4.63%	223,994
USDA bonds	06/01/36	2.25%	<u>900,000</u>
Total Plant Activities			<u>\$ 3,108,994</u>

B. Future Debt Service

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

<u>Plant</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 363,297	\$ 105,711	\$ 469,008
2020	363,297	92,667	455,964
2021	363,297	79,432	442,729
2022	363,297	66,010	429,307
2023	363,297	52,491	415,788
2024 - 2028	751,485	135,123	886,608
2029 - 2033	291,485	60,606	352,091
Thereafter	<u>249,539</u>	<u>32,064</u>	<u>281,603</u>
Total	<u>\$ 3,108,994</u>	<u>\$ 624,104</u>	<u>\$ 3,733,098</u>

C. Changes in General Long-Term Liabilities

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

<u>Total Activities</u>	<u>Total Balance 7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/18</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/18</u>
Bonds payable	\$ 3,472	\$ -	\$ (363)	\$ 3,109	\$ (363)	\$ 2,746
Net pension liability	471	210	-	681	-	681
Total OPEB liability	424	628	-	1,052	-	1,052
Compensated absences	<u>21</u>	<u>-</u>	<u>(3)</u>	<u>18</u>	<u>-</u>	<u>18</u>
Totals	<u>\$ 4,388</u>	<u>\$ 838</u>	<u>\$ (366)</u>	<u>\$ 4,860</u>	<u>\$ (363)</u>	<u>\$ 4,497</u>

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Plant that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes.

13. Retirement System

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

A. Plan Description

Substantially all employees of the Plant are members of the Worcester Regional Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1

or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Plant employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

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

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The Plant's contribution to the System for the year ended June 30, 2018 was \$42,227, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2018, the Plant reported a liability of \$680,505 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 and rolled forward to December 31, 2017. The Plant's proportion of the net pension liability was based on a projection of the Plant's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the Plant's proportion was 0.0835%.

For the year ended June 30, 2018, the Plant recognized pension expense of \$61,965. In addition, the Plant reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,527	\$ -
Changes of assumptions	64,850	-
Net difference between projected and actual investment earnings on pension plan investments	-	21,218
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,200</u>	<u>85,332</u>
Total	<u>\$ 70,577</u>	<u>\$ 106,550</u>

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

Year ended December 31:	
2019	\$ (8,711)
2020	(8,787)
2021	(15,300)
2022	(124)
2023	<u>(3,051)</u>
Total	\$ <u>(35,973)</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, rolled forward to the measurement date of December 31, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0% per year
Projected salary increases	4.20-6.00%
Investment rate of return	7.75%

Mortality rates were based on RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled lives, the mortality rates were based on RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.0%	4.91%
Fixed income	22.0%	2.04%
Private equity	11.0%	6.50%
Real estate	10.0%	3.70%
Timber/Natural resources	4.0%	3.25%
Hedge funds	<u>13.0%</u>	3.40%
Total	<u>100.00%</u>	

E. Discount Rate

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

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

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

<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
\$ 829,389	\$ 680,505	\$ 554,771

G. Pension Plan Fiduciary Net Position

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

14. Other Post-Employment Benefits (GASB 75)

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

All the following OPEB disclosures are based on a measurement date of July 1, 2017.

A. General Information about the OPEB Plan

Plan Description

The Plant provides post-employment healthcare benefits for retired employees through the Plant's plan. The Plant provides health insurance coverage through Blue Cross and Blue Shield of Massachusetts. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. The OPEB plan is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits Provided

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

Plan Membership

At July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	2
Active employees	<u>6</u>
Total	<u><u>8</u></u>

B. Actuarial Assumptions and Other Inputs

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

Inflation	2.75%
Salary increases	3.00%
Investment rate of return	6.50%, net of OPEB plan investment expense, including inflation
Discount rate	3.25%
Healthcare cost trend rates	Medical: 6.0% decreasing by 1.0% to 5.0% per year Dental: 5.5% decreasing by 0.5% to 5.0% per year

The discount rate was based on the S&P Municipal Bond 20-Year High-Grade Index-SAPIHG at July 1, 2017.

Mortality rates were based on the RP-2000 Employees Mortality Table.

C. Discount Rate

The discount rate used to measure the total OPEB liability was 3.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

D. Total OPEB Liability

The Plant's total OPEB liability of \$1,052,315 was measured as of July 1, 2017 and was determined by an actuarial valuation as of July 1, 2017.

E. Changes in the Total OPEB Liability

	Total OPEB <u>Liability</u>
Balances, beginning of year	\$ 1,464,786
Changes for the year:	
Service cost	44,139
Interest	48,861
Differences between expected and actual experience	(494,308)
Benefit payments	<u>(11,163)</u>
Net Changes	<u>(412,471)</u>
Balances, end of year	<u>\$ 1,052,315</u>

F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$ 1,258,631	\$ 1,052,315	\$ 889,083

G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 805,138	\$ 1,052,315	\$ 1,373,443

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

For the year ended June 30, 2018, the Plant recognized an OPEB expense of \$81,837. At June 30, 2018, the Plant reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 25,000	\$ -
Difference between expected and actual experience	<u>-</u>	<u>408,788</u>
Total	<u>\$ 25,000</u>	<u>\$ 408,788</u>

The \$25,000 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before

the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ending June 30, 2019.

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

<u>Year Ended June 30:</u>		
2018	\$	85,520
2019		85,520
2020		85,520
2021		85,520
2022		<u>66,708</u>
Total	\$	<u><u>408,788</u></u>

15. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the Plant has been restated as follows:

As previously reported	\$	2,757,558
GASB 75 Implementation		<u>(1,015,976)</u>
As restated	\$	<u><u>1,741,582</u></u>

TEMPLETON MUNICIPAL WATER PLANT
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2018

(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	0.0835%	\$680,505	\$ 213,747	318.37%	46.40%
June 30, 2017	December 31, 2016	0.0562%	\$470,795	\$ 381,136	123.52%	42.00%
June 30, 2016	December 31, 2015	0.1124%	\$797,955	\$ 365,922	218.07%	44.52%
June 30, 2015	December 31, 2014	0.1525%	\$907,704	\$ 348,393	260.54%	47.94%

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

See Independent Auditors' Report.

**TEMPLETON MUNICIPAL WATER PLANT
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)**

JUNE 30, 2018

(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	Contributions in Relation to the			<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
		<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>				
June 30, 2018	December 31, 2017	\$ 42,227	\$ 42,227	\$ -	\$ 213,747	19.76%	
June 30, 2017	December 31, 2016	\$ 27,703	\$ 27,703	\$ -	\$ 381,136	7.27%	
June 30, 2016	December 31, 2015	\$ 50,576	\$ 50,576	\$ -	\$ 365,922	13.82%	
June 30, 2015	December 31, 2014	\$ 60,282	\$ 60,282	\$ -	\$ 348,393	17.30%	

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

See Independent Auditors' Report.

**TEMPLETON MUNICIPAL WATER PLANT
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Changes in the Total OPEB Liability and Contributions (GASB 75)

(Unaudited)

Changes in Total OPEB Liability

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 44,139
Interest on unfunded liability - time value of \$	48,861
Differences between expected and actual experience	(494,308)
Benefit payments, including refunds of member contributions	<u>(11,163)</u>
Net change in total OPEB liability	(412,471)
Total OPEB liability - beginning	<u>1,464,786</u>
Total OPEB liability - ending	<u>\$ 1,052,315</u>
Covered employee payroll	\$ 385,519
Contributions as a percentage of covered employee payroll	2.90%

Schedule of Contributions

	<u>2018</u>
Actuarially determined contribution	\$ 97,832
Contributions in relation to the actuarially determined contribution	<u>11,163</u>
Contribution deficiency (excess)	<u>\$ 86,669</u>
Covered employee payroll	\$ 385,519
Contributions as a percentage of covered employee payroll	2.90%

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

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

See Independent Auditors' Report.

TOWN OF TEMPLETON, MASSACHUSETTS
MUNICIPAL WATER PLANT

SCHEDULE OF WATER OPERATING EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

Operating Expenses	
Chemical and water testing	\$ 43,208
Electricity	82,652
Insurance	27,526
Materials and supplies	36,305
Miscellaneous	10,691
Office expense	22,625
Outside services	28,234
Salaries and benefits	239,895
Transportation	<u>10,329</u>
Total Operating Expenses	\$ <u>501,465</u>

See Independent Auditors' Report.