

TOWN OF WEST NEWBURY, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2017

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2017

TOWN OF WEST NEWBURY, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of West Newbury, Massachusetts

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective

changes in financial position and where applicable, cash flows thereof for the year then ended in conformity 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, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the schedule of the Commonwealth's share of the net pension liability of the Massachusetts Teacher's Retirement System, the funding progress and contribution funding for other postemployment benefits, the schedules of changes in net other postemployment liability, ratios and contributions, schedule of investment returns for other postemployment benefit plans and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
March 27, 2018

Management's Discussion and Analysis

As the management of the Town, we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by nearly \$28.4 million (*total net position*). Over \$25.1 million represented net position of governmental activities and over \$3.2 million represented net position of the business-type activities.
- The government's total net position increased by nearly \$0.3 million. This was due to an increase of nearly \$0.3 million in governmental activities that was primarily the result of favorable operating results due to the continued expansion in the economy. Business-type activities operations were flat with the prior as actual results met expectations.
- The Town's Unassigned Fund Balance reported in the General Fund was approximately \$3.7 million (26.0% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$4.6 million (32.7% of General Fund expenditures). Furthermore, reported fund balances in the Town's Community Preservation Fund, Library Trust Fund and the Combined Nonmajor Governmental Funds were approximately \$2.2 million, \$1.0 million and \$1.0 million, respectively.
- The Town's total long-term debt decreased by approximately \$0.6 million; nearly all of this decrease related to regular maturities of governmental activities' debt.

Overview of the Financial Statements

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

Government-wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Town's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and

recreation, fringe benefits, and debt service. The business-type activities of the Town consist completely of the Town's water activities.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains a number of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, community preservation fund, and library trust fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

Proprietary Funds – The Town maintains only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the water enterprise fund.

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s proportionate share of the net pension liability, contributions to pension plan, and the Town’s progress in funding its obligation to provide other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town, the assets and deferred outflows of the Town exceeded liabilities and deferred inflows by approximately \$28.4 million at the close of the most recent fiscal year.

The condensed statement of net position is as follows:

	Governmental activities		Business activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Assets</u>						
Current and other assets	\$ 9,357,921	\$ 9,614,981	\$ 1,207,112	\$ 1,221,487	\$ 10,565,033	\$ 10,836,468
Capital assets, net	24,823,959	24,762,830	2,653,242	2,696,178	27,477,201	27,459,008
Total assets	34,181,880	34,377,811	3,860,354	3,917,665	38,042,234	38,295,476
<u>Deferred Outflows of Resources</u>	676,875	328,150	57,447	27,850	734,322	356,000
<u>Liabilities</u>						
Long term liabilities	9,227,343	9,488,939	635,845	606,223	9,863,188	10,095,162
Other liabilities	228,422	158,085	12,340	63,873	240,762	221,958
Total liabilities	9,455,765	9,647,024	648,185	670,096	10,103,950	10,317,120
<u>Deferred Inflows of Resources</u>	289,999	222,151	24,612	18,854	314,611	241,005
<u>Net Position</u>						
Net investment in capital assets	22,538,960	21,732,363	2,593,097	2,624,004	25,132,057	24,356,367
Restricted	4,504,285	4,602,370	-	-	4,504,285	4,602,370
Unrestricted	(1,930,254)	(1,497,947)	651,907	632,561	(1,278,347)	(865,386)
Net Position	\$ 25,112,991	\$ 24,836,786	\$ 3,245,004	\$ 3,256,565	\$ 28,357,995	\$ 28,093,351

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

An additional portion of the Town’s net position represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position* reflects the remainder of net position; a

deficit of nearly \$1.3 million. This consisted of Governmental Activities unrestricted net position which is in a deficit position of over \$1.9 million offset by nearly \$0.7 unrestricted net position in the business-type activities. This is due primarily from the recognition of almost \$7.3 million of net pension liabilities recorded with the implementation of GASB Statement 68 in fiscal year 2015.

Condensed changes in net position data is presented as follows:

	Governmental activities		Business activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues						
Program revenues:						
Charges for services	\$ 555,354	\$ 735,716	\$ 708,444	\$ 705,551	\$ 1,263,798	\$ 1,441,267
Operating grants and contributions	91,783	266,177	-	-	91,783	266,177
Capital grants and contributions	332,898	550,821	20,000	36,000	352,898	586,821
General revenues:						
Property taxes	13,066,188	12,654,000	-	-	13,066,188	12,654,000
Intergovernmental	331,847	273,153	-	-	331,847	273,153
Other	851,511	753,360	4,830	9,765	856,341	763,125
Total revenues	<u>15,229,581</u>	<u>15,233,227</u>	<u>733,274</u>	<u>751,316</u>	<u>15,962,855</u>	<u>15,984,543</u>
Expenses						
General government	1,365,126	1,183,358	-	-	1,365,126	1,183,358
Public safety	2,597,432	2,452,846	-	-	2,597,432	2,452,846
Education	8,008,452	7,528,835	-	-	8,008,452	7,528,835
Public works	1,754,337	1,538,949	-	-	1,754,337	1,538,949
Health and human services	575,616	514,569	-	-	575,616	514,569
Culture and recreation	590,113	580,673	-	-	590,113	580,673
Debt service	62,300	74,400	-	-	62,300	74,400
Water	-	-	744,835	846,512	744,835	846,512
Total expenses	<u>14,953,376</u>	<u>13,873,630</u>	<u>744,835</u>	<u>846,512</u>	<u>15,698,211</u>	<u>14,720,142</u>
Change in net position	276,205	1,359,597	(11,561)	(95,196)	264,644	1,264,401
Net position, beginning of year	<u>24,836,786</u>	<u>23,477,189</u>	<u>3,256,565</u>	<u>3,351,761</u>	<u>28,093,351</u>	<u>26,828,950</u>
Net position, end of year	<u>\$ 25,112,991</u>	<u>\$ 24,836,786</u>	<u>\$ 3,245,004</u>	<u>\$ 3,256,565</u>	<u>\$ 28,357,995</u>	<u>\$ 28,093,351</u>

Governmental Activities - The Town relies significantly on property taxes, which, during 2017, made up approximately 85.8% of total governmental activities revenues, an increase of \$0.4 million over the prior year. In Massachusetts, Town's cannot increase property taxes more than 2.5% of the prior year commitment, plus new growth and voted operating and debt exclusions; so, this increase met the statutory amount expected during 2017. Total operating and capital grants were down about \$0.4 million due to a \$0.1 million one-time energy grant in the prior year, about \$0.1 million less in chapter 90 road work, a smaller State match on the Community Conservation Funds and other smaller one-time grants that phased out. All other revenue amounts were either consistent with the prior year or not material in amount.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 53.6% of total expenses; this was consistent with the prior year amount of 54.3%. All other functional expense categories were up slightly due to a modest increase in benefits that were allocated to each function.

Business-type Activities - Major revenue sources consist of revenue from water user charges which represented approximately 100% of total revenues. Water expenses represented 100% of total business-type expenses.

Financial Analysis of the Governmental Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the general fund was approximately \$3.7 million, while total fund balance reached approximately \$4.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represented approximately 26.0% of total general fund expenditures, while total fund balance represented approximately 32.7% of that same amount.

The Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$8.6 million. In addition to the \$4.6 million in the general fund previously discussed, there were also restricted fund balances in the Community Preservation Fund and Library Trust Fund of approximately \$2.2 million and \$1.0 million, respectively. The fund balance of the combined Nonmajor funds was approximately \$0.9 million, most of which is restricted.

The General Fund balance increased by about \$0.3 million due to continued robust operations benefitting from the continued economic expansion.

The Community Preservation Fund balance decreased by \$0.5 million over the prior year; this was primarily due to higher voted projects as compared to lower State matched revenue.

The Library Trust Fund met the criteria for presentation as a major fund in the current year. The fund's restricted fund balance was consistent with the prior year balance as activity was minimal.

The combined Nonmajor funds declined by about \$0.1 million; this was mainly due to timing of revenues and expenditures as these funds are intended to net over time.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$3.3 million, which was relatively unchanged from the prior year.

Fiduciary funds - The Town's fiduciary funds include nearly \$1.9 million for a trust established to account for the Town's OPEB activities. The Town is virtually fully funded with respect to its accrued actuarial OPEB liability. In addition, the Town maintains over \$0.3 million in various private purpose activities that are also accounted for within its fiduciary funds

General Fund Budgetary Highlights

Major differences in the final amended budget to the original budget consisted of Public Safety and Public Works articles of approximately \$0.5 million that were passed in the spring Annual Town Meeting for vehicles and road repair and improvement work.

Other function differences between the original budget and the final amended budget were insignificant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to approximately \$27.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment and reflects a small increase from prior year, as additions approximated depreciation.

Major capital asset additions for 2017 in the Town's governmental activities include approximately \$0.3 of CIP, \$0.2 million in building improvements and \$0.2 million in infrastructure.

Additional information on the Town capital assets can be found in Note II, subsection D.

Long-term Debt - At the end of the current fiscal year, the Town had total debt outstanding of nearly \$2.5 million; the majority of this is accounted for as general obligation bonds within the governmental activities and was reduced from \$3.1 million due to regular scheduled maturities.

The Town received a AA+ bond rating from Standard and Poor; the second highest rating the agency sets; exceeded only by AAA.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total equalized valuation. The current debt limitation for the Town is approximately \$44.7 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found Note II, Section E, F and G of this report.

Economic Factors and Next Year's Budgets and Rates

- The Town's unemployment rate remains stable; this is consistent with State and national trends.
- The Town's real estate tax base is made up of approximately 97.3% residential real estate tax. Its commercial, industrial and personal property taxes make up the remainder of the tax base at 2.7%. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town's housing market is robust and continues to rank at the top of the State averages.
- The Town set its tax rate for fiscal year 2018 on November 21, 2017.

The above items were considered when the Town developed its budget for fiscal year 2018 which was authorized by Annual Town Meeting in April 2017.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 381 Main Street, West Newbury, Massachusetts, 01985.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,982,752	\$ 892,731	\$ 7,875,483
Investments	1,885,692	-	1,885,692
Receivables, net of allowance for uncollectibles:			
Property taxes	122,233	-	122,233
Departmental and other	201,167	-	201,167
Intergovernmental	-	-	-
User charges	-	252,953	252,953
Net OPEB asset	166,077	61,428	227,505
Capital assets, not being depreciated	11,000,403	395,662	11,396,065
Capital assets, net of accumulated depreciation	13,823,556	2,257,580	16,081,136
Total Assets	34,181,880	3,860,354	38,042,234
Deferred Outflows of Resources			
Deferred pensions	676,875	57,447	734,322
Total Deferred Outflows of Resources	676,875	57,447	734,322
Liabilities			
Warrants and accounts payable	178,362	8,105	186,467
Accrued payroll and withholdings	50,060	4,235	54,295
Noncurrent liabilities:			
Due within one year	507,874	15,364	523,238
Due in more than one year	8,719,469	620,481	9,339,950
Total Liabilities	9,455,765	648,185	10,103,950
Deferred Inflows of Resources			
Deferred pensions	289,999	24,612	314,611
Total Deferred Inflows of Resources	289,999	24,612	314,611
Net Position			
Net investment in capital assets	22,538,960	2,593,097	25,132,057
Restricted:			
Nonexpendable permanent funds	7,500	-	7,500
Community preservation	2,194,143	-	2,194,143
Other purposes	2,302,642	-	2,302,642
Unrestricted	(1,930,254)	651,907	(1,278,347)
Total Net Position	\$ 25,112,991	\$ 3,245,004	\$ 28,357,995

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:								
<u>Governmental Activities:</u>								
General government	\$ 1,365,126	\$ 286,995	\$ 772	\$ 118,749	\$ (958,610)		\$ (958,610)	
Public safety	2,597,432	214,381	38,670	-	(2,344,381)		(2,344,381)	
Education	8,008,452	-	-	-	(8,008,452)		(8,008,452)	
Public works	1,754,337	-	-	214,149	(1,540,188)		(1,540,188)	
Health and human services	575,616	1,469	12,383	-	(561,764)		(561,764)	
Culture and recreation	590,113	52,509	39,958	-	(497,646)		(497,646)	
Interest	62,300	-	-	-	(62,300)		(62,300)	
Total Governmental Activities	14,953,376	555,354	91,783	332,898	(13,973,341)		(13,973,341)	
<u>Business-Type Activities:</u>								
Water	744,835	708,444	-	20,000	-	\$ (16,391)	(16,391)	
Total Primary Government	\$ 15,698,211	\$ 1,263,798	\$ 91,783	\$ 352,898	(13,973,341)	(16,391)	(13,989,732)	
<u>General Revenues:</u>								
					13,066,188	-	13,066,188	
					736,733	-	736,733	
					39,633	-	39,633	
					Grants and contributions not restricted to specific purposes	331,847	-	331,847
					Unrestricted investment income	75,145	4,830	79,975
					Total general revenues and transfers	14,249,546	4,830	14,254,376
					Change in Net Position	276,205	(11,561)	264,644
<u>Net Position:</u>								
					Beginning of year	24,836,786	3,256,565	28,093,351
					End of year	\$ 25,112,991	\$ 3,245,004	\$ 28,357,995

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	Community Preservation	Library Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 3,317,563	\$ 2,191,827	\$ 595,673	\$ 877,689	\$ 6,982,752
Investments	1,515,903	-	369,789	-	1,885,692
Receivables, net of allowance for uncollectibles					
Property taxes	119,995	2,238	-	-	122,233
Departmental and other	152,950	288	-	47,929	201,167
Intergovernmental	-	-	-	-	-
Total Assets	<u>5,106,411</u>	<u>2,194,353</u>	<u>965,462</u>	<u>925,618</u>	<u>9,191,844</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,106,411</u>	<u>\$ 2,194,353</u>	<u>\$ 965,462</u>	<u>\$ 925,618</u>	<u>\$ 9,191,844</u>
Liabilities:					
Warrants and accounts payable	\$ 174,158	\$ -	\$ -	\$ 4,204	\$ 178,362
Accrued payroll and withholdings	42,259	210	-	7,591	50,060
Other liabilities	-	-	-	-	-
Total Liabilities	<u>216,417</u>	<u>210</u>	<u>-</u>	<u>11,795</u>	<u>228,422</u>
Deferred Inflows of Resources:					
Unavailable revenues - property taxes	119,995	2,238	-	-	122,233
Unavailable revenues - other	152,950	288	-	81,195	234,433
Total Deferred Inflows of Resources	<u>272,945</u>	<u>2,526</u>	<u>-</u>	<u>81,195</u>	<u>356,666</u>
Fund Balances:					
Nonspendable	-	-	7,500	-	7,500
Restricted	25,000	2,191,617	957,962	846,027	4,020,606
Committed	786,809	-	-	-	786,809
Assigned	134,921	-	-	-	134,921
Unassigned	3,670,319	-	-	(13,399)	3,656,920
Total Fund Balances	<u>4,617,049</u>	<u>2,191,617</u>	<u>965,462</u>	<u>832,628</u>	<u>8,606,756</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,106,411</u>	<u>\$ 2,194,353</u>	<u>\$ 965,462</u>	<u>\$ 925,618</u>	<u>\$ 9,191,844</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Governmental Fund Balances	\$ 8,606,756
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,823,959
The Town has a net asset related to other postemployment benefits. This long-term asset is not reported in the fund financial statements	166,077
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.	356,666
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings on pension plan investments	293,699
Differences between expected and actual experience	(120,741)
Changes of assumptions	284,151
Changes in proportion and differences	(70,233)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(2,411,442)
Net pension liability	(6,704,690)
Compensated absences	(111,211)
Net Position of Governmental Activities	<u>\$ 25,112,991</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	General	Community Preservation	Library Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 12,730,216	\$ 298,203	\$ -	\$ -	\$ 13,028,419
Intergovernmental	343,703	118,749	-	281,174	743,626
Excise taxes	736,733	-	-	-	736,733
License and permits	175,404	-	-	-	175,404
Departmental and other revenue	255,712	-	-	106,002	361,714
Penalties and interest on taxes	39,633	-	-	-	39,633
Fines and forfeitures	16,473	-	-	-	16,473
Investment income	37,465	12,826	24,831	23	75,145
Contributions and donations	-	-	-	17,956	17,956
Total Revenues	<u>14,335,339</u>	<u>429,778</u>	<u>24,831</u>	<u>405,155</u>	<u>15,195,103</u>
Expenditures:					
Current:					
General government	939,405	22,485	-	29,878	991,768
Public safety	1,622,529	-	-	38,169	1,660,698
Education	7,537,407	601,639	-	-	8,139,046
Public works	1,362,122	-	-	217,000	1,579,122
Health and human services	528,671	237,784	-	10,607	777,062
Culture and recreation	381,799	79,922	23,719	86,016	571,456
Community preservation	-	-	-	-	-
Pension and other fringe benefits	872,860	-	-	-	872,860
State and county tax assessments	74,485	-	-	-	74,485
Debt service:					
Principal	745,466	-	-	21,192	766,658
Interest	62,300	-	-	-	62,300
Total Expenditures	<u>14,127,044</u>	<u>941,830</u>	<u>23,719</u>	<u>402,862</u>	<u>15,495,455</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	208,295	(512,052)	1,112	2,293	(300,352)
Other Financing Sources (Uses):					
Transfers in	107,400	-	-	5,000	112,400
Transfers out	(5,000)	-	-	(107,400)	(112,400)
Total Other Financing Sources (Uses)	<u>102,400</u>	<u>-</u>	<u>-</u>	<u>(102,400)</u>	<u>-</u>
Net Change in Fund Balances	310,695	(512,052)	1,112	(100,107)	(300,352)
Fund Balances - Beginning	4,306,354	2,703,669	964,350	932,735	8,907,108
Fund Balances - Ending	<u>\$ 4,617,049</u>	<u>\$ 2,191,617</u>	<u>\$ 965,462</u>	<u>\$ 832,628</u>	<u>\$ 8,606,756</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	<u>Total</u>
Net Change in Fund Balances - Total Governmental Fund Balances	\$ (300,352)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items:</p>	
Capital outlays	\$ 860,785
Depreciation expense	<u>(799,656)</u>
Net effect of reporting capital assets	61,129
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on Net Position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:</p>	
Repayments of capital lease obligations	165,467
Repayments of debt	<u>601,191</u>
Net effect of reporting long-term debt	766,658
<p>Revenues in the Statement of Activities that do not provide current financial are reported as unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue of various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.</p>	
	34,478
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>	
Compensated absences	(6,289)
Other postemployment benefits	(61,523)
Pension benefits	<u>(217,896)</u>
Net effect of reporting long-term liabilities	<u>(285,708)</u>
Change in Net Position of Governmental Activities	\$ <u>276,205</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2017

	Business-type Activities
	Enterprise fund
	Water
Assets:	
Current assets:	
Cash and cash equivalents	\$ 892,731
User fees receivable	252,953
Total current assets	1,145,684
Noncurrent assets:	
Net OPEB asset	61,428
Capital assets, not being depreciated	395,662
Capital assets, net of accumulated depreciation	2,257,580
Total noncurrent assets	2,714,670
Total Assets	3,860,354
Deferred Outflows of Resources	
Deferred pensions	57,447
Total Deferred Outflows of Resources	57,447
Liabilities:	
Current liabilities:	
Warrants and accounts payable	8,105
Accrued payroll and withholdings	4,235
Bonds and notes payable	12,029
Compensated absences	3,335
Total current liabilities	27,704
Noncurrent liabilities:	
Bonds and notes payable	48,116
Compensated absences	3,334
Net pension liability	569,031
Total noncurrent liabilities	620,481
Total Liabilities	648,185
Deferred Inflows of Resources	
Deferred pensions	24,612
Total Deferred Inflows of Resources	24,612
Net Position:	
Net investment in capital assets	2,593,097
Unrestricted	651,907
Total Net Position	\$ 3,245,004

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2017

	Business-type Activities Enterprise Fund Water
Operating Revenues:	
Charges for services	\$ 627,050
Other	81,394
Total Operating Revenues	708,444
Operating Expenses:	
Operating costs	650,112
Depreciation	91,115
Total Operating Expenses	741,227
Operating Income (Loss)	(32,783)
Nonoperating Revenues (Expenses):	
Investment income	4,830
Investment expense	(3,608)
Total Nonoperating Revenues (Expenses)	1,222
Income (Loss) Before Capital Contributions and Transfers	(31,561)
Capital Contributions:	
System development fees	20,000
Change in Net Position	(11,561)
Total Net Position - Beginning	3,256,565
Total Net Position - Ending	\$ 3,245,004

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-type Activities Enterprise Fund Water
Cash Flows From Operating Activities:	
Receipts from users	\$ 662,050
Payments to employees	(177,326)
Payments to vendors	(499,451)
	<u>(14,727)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(14,727)</u>
Cash Flows from Capital and Related Financing Activities	
System development fees	20,000
Acquisition and construction of capital assets	(48,179)
Principal payments on bonds and notes	(12,029)
Interest expense	(3,608)
	<u>(43,816)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(43,816)</u>
Cash flows from Investing Activities	
Investment income	4,830
	<u>4,830</u>
Net Cash Provided by Investing Activities	<u>4,830</u>
Net Change in Cash and Cash Equivalents	(53,713)
Cash and Cash Equivalents:	
Beginning of year	946,444
	<u>946,444</u>
End of year	<u>\$ 892,731</u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:	
Operating loss	\$ (32,783)
Depreciation expense	91,115
Changes in assets, deferred inflows, and liabilities:	
Receivables (net)	(16,797)
Deferred outflows of resources	(29,597)
Net OPEB asset	(22,541)
Payables	(52,213)
Deferred inflows of resources	5,758
Net pension liability	42,331
	<u>42,331</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (14,727)</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
Assets:			
Cash and cash equivalents	\$ 83,942	\$ 218,202	\$ 48,748
Investments	1,775,526	-	-
Receivables	-	99,787	-
	<u>-</u>	<u>99,787</u>	<u>-</u>
Total Assets	<u>1,859,468</u>	<u>317,989</u>	<u>48,748</u>
Liabilities:			
Warrants payable	-	-	4,160
Other liabilities	-	-	44,588
	<u>-</u>	<u>-</u>	<u>44,588</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>48,748</u>
Net Position:			
Held in trust for other postemployment benefits	1,859,468	-	-
Held in trust for other purposes	-	317,989	-
	<u>-</u>	<u>317,989</u>	<u>-</u>
Total Net Position	<u><u>\$ 1,859,468</u></u>	<u><u>\$ 317,989</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	Other Postemployment Benefits Trust	Private Purpose Trust Funds
Additions:		
Contributions:		
Employer	\$ 73,798	\$ -
Investment income	133,486	(41)
Total Additions	207,284	(41)
Deductions:		
Life and health insurance premiums paid for retirees	73,798	-
Health and human services	-	900
Total Deductions	73,798	900
Change in Net Position	133,486	(941)
Net Position - Beginning	1,725,982	318,930
Net Position - Ending	\$ 1,859,468	\$ 317,989

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town of West Newbury is located in Essex County and was incorporated as a town in 1819. An elected three-member Board of Selectmen governs the Town with an appointed Finance Director. Each Board of Selectmen member serves three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, highway services, water, trash collection, street maintenance, parks and recreational facilities. Water services are funded almost entirely with user charges.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Pentucket Regional School District that provides educational services to the three member communities of West Newbury, Groveland and Merrimac. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2017, the Town's share of the operating, capital and debt service expenses was \$7,194,749. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 22 Main Street, West Newbury, MA 01985

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element for all funds of that category or type, and
- 2) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding elements for all governmental and enterprise funds combined.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

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

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Community Preservation Fund – is used to account for funds received in accordance with the state Community Preservation Act. Funds are used to acquire or develop open space and recreational facilities, historic resources and affordable housing.

Library Trust Fund – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the Town’s public library.

The *Nonmajor Governmental Funds* consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than capital projects funds) that are restricted or committed to expenditures for specified purposes.

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

Water Enterprise Fund - is used to account for user charges collected to finance costs associated with operating and maintaining the Town’s water utility.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other post-employment benefits for retirees such as health and life insurance.

Private-Purpose Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships and needy citizen benefit funds.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for employee payroll withholdings, private public safety details, student activity funds and developer escrow funds. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its investments is recognized as an increase or decrease to investment assets and investment income.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water user fees may be secured through a lien process within 60 days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	40 years
Machinery, equipment, and vehicles	2-12 years
Infrastructure	60 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business –type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the permanent funds is retained in the funds. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the Town’s policy to not permit employees to accumulate earned but unused vacation benefits beyond their annual contract date, which falls on June 30. Hourly employees who have been employed at least ten years are eligible to buy back 25% of their accumulated sick leave. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that is reported on the government-wide statement of net position which relates to outflows from changes in the net pension liability. The deferred pension will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items, which qualify for reporting in this category. The first is reported on the government-wide statement of net position and relates to inflows from changes in the net pension liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The other arises only under the modified accrual basis of accounts and accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

Community preservation represents assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing.

Other purposes represent assets that are restricted by grantors, donors and state laws for specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Town Administrator to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,459,386 at June 30, 2017 and is reported as unassigned fund balance in the General Fund.

The Town maintains a water stabilization fund which may be used for any water enterprise purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$128,766 at June 30, 2017 and is reported as unrestricted net position in the Water Enterprise Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Administrator as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$134,921 of encumbrances from normal purchasing activity in the general fund as assigned and \$786,809 of encumbrances from Town Meeting votes in the General Fund as committed. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

	General Fund	Community Preservation Act Fund	Library Trust Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Nonexpendable trust funds	\$ -	\$ -	\$ 7,500	\$ -	\$ 7,500
Restricted:					
General government	-	-	-	464,219	464,219
Public safety	-	-	-	40,435	40,435
Health and human services	-	-	-	69,080	69,080
Culture and recreation	-	-	957,962	114,553	1,072,515
Community preservation	-	2,191,617	-	-	2,191,617
Municipal buildings	25,000	-	-	-	25,000
Other purposes	-	-	-	157,740	157,740
Committed:					
General government	119,095	-	-	-	119,095
Public safety	405,349	-	-	-	405,349
Education	12,106	-	-	-	12,106
Public works	203,632	-	-	-	203,632
Health and human services	44,209	-	-	-	44,209
Other purposes	2,418	-	-	-	2,418
Assigned:					
General government	14,127	-	-	-	14,127
Public safety	3,792	-	-	-	3,792
Public works	9,633	-	-	-	9,633
Health and human services	17,774	-	-	-	17,774
Subsequent years' budget	89,595	-	-	-	89,595
Unassigned	3,670,319	-	-	(13,399)	3,656,920
	<u>\$ 4,617,049</u>	<u>\$ 2,191,617</u>	<u>\$ 965,462</u>	<u>\$ 832,628</u>	<u>\$ 8,606,756</u>

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits totaling \$13,399 in the Nonmajor Governmental Funds, which is reported as a major fund. This deficit will be funded through available grant funds in future fiscal year.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool ("the Pool"). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town's deposit policy requires the Town to maintain no more than 25% of the Town's cash balance in any one institution. At year-end, the carrying amount of the Town's deposits was \$7,497,875 and the bank balance was \$7,631,061. Of the Town's bank balance, \$5,718,784 was covered by either federal depository insurance or by the depositors' insurance fund and \$1,912,277 was collateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town's formal policy requires that investments in corporate bonds must be investment grade A or higher by Moody's or Standard and Poor.

United States governmental obligations totaling \$670,918, corporate bond holdings totaling \$722,499, and equity securities totaling \$1,302,139 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

Fair Value of Investments - The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* - Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* - Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* - Inputs reflect the Town's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2017:

		Fair Value Measurements Using		
	6/30/17	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. Government obligations	\$ 670,918	\$ 670,918	\$ -	\$ -
Corporate bonds	722,499	722,499	-	-
Negotiable certificates of deposit	919,711	-	919,711	-
Total debt securities	2,313,128	1,393,417	919,711	-
Equity securities:				
Common stock	1,302,139	1,302,139	-	-
Total equity securities	1,302,139	1,302,139	-	-
Total investments by fair value level	\$ 3,615,267	\$ 2,695,556	\$ 919,711	\$ -

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Negotiable certificates of deposit and repurchase agreements are classified in Level 2 and are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. Bond mutual funds are classified in Level 2 and are valued at the published fair value per share for each fund.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Such securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments, through fair value losses arising from increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

At June 30, 2017, the Town's investments had the following maturities:

Investments	6/30/2017	Time Until Maturity (Years)		
		<1	1 - 5	6 - 10 Years
U.S. Government obligations	\$ 670,918	\$ 54,708	\$ 616,210	\$ -
Corporate bonds	722,499	224,892	80,836	416,771
Negotiable certificates of deposit	919,711	70,097	849,614	-
Total Town Investments with Maturities	\$ 2,313,128	\$ 349,697	\$ 1,546,660	\$ 416,771

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total investments

Credit Risk – The Town has not adopted a formal policy related to credit risk.

At June 30, 2017, the credit quality ratings of the Town's investments were as follows:

Investments	Quality Ratings (Moody's)						
	AAA	AA2	A1	A2	A3	BAA1	Unrated
U.S. Government obligations	\$ 670,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	77,004	79,794	141,129	158,519	56,393	209,480	554,316
Negotiable certificates of deposit	-	-	-	-	-	-	919,711
Total	\$ 747,922	\$ 79,794	\$ 141,129	\$ 158,519	\$ 56,393	\$ 209,480	\$ 1,474,027

B. Receivables

Receivables as of year-end for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 119,995	\$ -	\$ 119,995
Tax liens, deferrals, and foreclosures	77,573	-	77,573
Excise	70,534	-	70,534
Other	4,843	-	4,843
Community preservation surcharges	2,526	-	2,526
Title V betterments	47,929	-	47,929
Total	\$ 323,400	\$ -	\$ 323,400

Receivables as of year-end for the Town's proprietary fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 252,953	\$ -	\$ 252,953

Governmental funds report deferred inflows of resources in connection with receivable for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivables type:			
Real estate and personal property taxes	\$ 119,995	\$ -	\$ 119,995
Tax liens, deferrals, and foreclosures	77,573	-	77,573
Excise	70,534	-	70,534
Other	4,843	-	4,843
Community preservation surcharges	-	2,526	2,526
Title V betterments	-	47,929	47,929
Intergovernmental	-	33,266	33,266
Total	\$ 272,945	\$ 83,721	\$ 356,666

C. Interfund Receivables, Payables and Transfers

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

<u>Transfers Out</u>	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 5,000	\$ 5,000 (1)
Nonmajor Governmental Funds	107,400	-	107,400 (2)
Total	<u>\$ 107,400</u>	<u>\$ 5,000</u>	<u>\$ 112,400</u>

(1) Transfers to nonmajor governmental funds to supplement Bicentennial Celebration fund.

(2) Transfers to general fund to subsidize operating budgets.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 9,453,482	\$ -	\$ -	\$ 9,453,482
Construction in progress	1,288,358	258,563	-	1,546,921
Total capital assets not being depreciated	10,741,840	258,563	-	11,000,403
Capital assets being depreciated:				
Buildings	12,859,488	237,784	-	13,097,272
Improvements other than buildings	1,568,374	25,000	-	1,593,374
Infrastructure	8,674,154	246,975	-	8,921,129
Machinery and equipment	960,029	55,449	-	1,015,478
Vehicles	3,176,417	37,014	(46,231)	3,167,200
Total capital assets being depreciated	27,238,462	602,222	(46,231)	27,794,453
Less accumulated depreciation for:				
Buildings	(6,450,666)	(326,087)	-	(6,776,753)
Improvements other than buildings	(1,321,441)	(43,099)	-	(1,364,540)
Infrastructure	(2,534,655)	(156,718)	-	(2,691,373)
Machinery and equipment	(610,873)	(43,508)	-	(654,381)
Vehicles	(2,299,837)	(230,244)	46,231	(2,483,850)
Total accumulated depreciation	(13,217,472)	(799,656)	46,231	(13,970,897)
Total capital assets being depreciated, net	14,020,990	(197,434)	-	13,823,556
Governmental activities capital assets, net	<u>\$ 24,762,830</u>	<u>\$ 61,129</u>	<u>\$ -</u>	<u>\$ 24,823,959</u>
<u><i>Business Activities - Water:</i></u>				
Capital assets not being depreciated:				
Land	\$ 395,662	\$ -	\$ -	\$ 395,662
Total capital assets not being depreciated	395,662	-	-	395,662
Capital assets being depreciated:				
Infrastructure	4,924,077	-	-	4,924,077
Improvement other than buildings	5,570	-	-	5,570
Machinery and equipment	139,974	-	-	139,974
Vehicles	66,838	48,179	-	115,017
Total capital assets being depreciated	5,136,459	48,179	-	5,184,638
Less accumulated depreciation for:				
Infrastructure	(2,686,518)	(80,569)	-	(2,767,087)
Improvement other than buildings	(5,571)	-	-	(5,571)
Machinery and equipment	(77,016)	(5,728)	-	(82,744)
Vehicles	(66,838)	(4,818)	-	(71,656)
Total accumulated depreciation	(2,835,943)	(91,115)	-	(2,927,058)
Total capital assets being depreciated, net	2,300,516	(42,936)	-	2,257,580
Business activities capital assets, net	<u>\$ 2,696,178</u>	<u>\$ (42,936)</u>	<u>\$ -</u>	<u>\$ 2,653,242</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 96,917	Water	<u>\$ 91,115</u>
Public safety	240,570		
Education	90,642		
Public works	289,858		
Health and human services	26,171		
Culture and recreation	55,498		
	<u>\$ 799,656</u>		

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue (RANS) or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively.

The Town does not report any temporary debt activity during the current fiscal year.

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

MCWT Loan Subsidies – The Town has entered into multiple loan agreements with the Massachusetts Clean Water Trust (MCWT) for Title V septic loans. It is expected that the Town will be subsidized by the MCWT on a periodic basis for interest in the amount of \$5,485 until the maturity of these agreements.

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 3,012,633	\$ -	\$ (601,191)	\$ 2,411,442	\$ 491,192
Capital lease obligations	165,467	-	(165,467)	-	-
Compensated absences	104,922	22,027	(15,738)	111,211	16,682
Net pension liability	6,205,917	1,421,800	(923,027)	6,704,690	-
Total Governmental Activities	<u>\$ 9,488,939</u>	<u>\$ 1,443,827</u>	<u>\$ (1,705,423)</u>	<u>\$ 9,227,343</u>	<u>\$ 507,874</u>
Business-type Activities: Water					
Bond and note indebtedness	\$ 72,174	\$ -	\$ (12,029)	\$ 60,145	\$ 12,029
Compensated absences	7,349	-	(680)	6,669	3,335
Net pension liability	526,700	120,669	(78,338)	569,031	-
Total Business-type Activities: Water	<u>\$ 606,223</u>	<u>\$ 120,669</u>	<u>\$ (91,047)</u>	<u>\$ 635,845</u>	<u>\$ 15,364</u>

The governmental activities liabilities will be liquidated by the general fund. The business-type activities liabilities will be liquidated by the water enterprise fund. The following is a summary of long-term debt and future year maturities as of June 30, 2017:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
Governmental Activities:						
General obligation bonds	2025	2.00 - 4.00%	\$ 2,765,000	\$ -	\$ (480,000)	\$ 2,285,000
Refunding bonds	2016	2.00 - 3.00%	100,000	-	(100,000)	-
MCWT notes (Title V)	2024	0.00 - 5.25%	147,633	-	(21,191)	126,442
Total Governmental Bond and Note Indebtedness			<u>3,012,633</u>	<u>-</u>	<u>(601,191)</u>	<u>2,411,442</u>
Business-type Activities - Water:						
FHA loan	2022	5.00%	72,174	-	(12,029)	60,145
Total Water Bond and Note Indebtedness			<u>72,174</u>	<u>-</u>	<u>(12,029)</u>	<u>60,145</u>
Total Long-Term Bond and Note Indebtedness - All			<u>\$ 3,084,807</u>	<u>\$ -</u>	<u>\$ (613,220)</u>	<u>\$ 2,471,587</u>

Governmental Activities - Total Bond and Note Indebtedness						
Year Ending June 30,	Principal		Interest			Total
	Balance	Net	Balance	Subsidy	Net	
2018	\$ 491,192	\$ 491,192	\$ 43,204	\$ (2,204)	\$ 41,000	\$ 532,192
2019	461,192	461,192	33,535	(1,635)	31,900	493,092
2020	456,192	456,192	24,244	(1,094)	23,150	479,342
2021	361,413	361,413	15,952	(552)	15,400	376,813
2022	315,361	315,361	8,950	-	8,950	324,311
2023-2027	326,092	326,092	2,950	-	2,950	329,042
Total	<u>\$ 2,411,442</u>	<u>\$ 2,411,442</u>	<u>\$ 128,835</u>	<u>\$ (5,485)</u>	<u>\$ 123,350</u>	<u>\$ 2,534,792</u>

Business-type Activities: Water - Total Bond and Note Indebtedness						
Year Ending June 30,	Principal		Interest			Total
	Balance	Net	Balance	Subsidy	Net	
2018	\$ 12,029	\$ 12,029	\$ 3,007	\$ -	\$ 3,007	\$ 15,036
2019	12,029	12,029	2,406	-	2,406	14,435
2020	12,029	12,029	1,804	-	1,804	13,833
2021	12,029	12,029	1,203	-	1,203	13,232
2022	12,029	12,029	601	-	601	12,630
Total	<u>\$ 60,145</u>	<u>\$ 60,145</u>	<u>\$ 9,021</u>	<u>\$ -</u>	<u>\$ 9,021</u>	<u>\$ 69,166</u>

Authorized and Unissued Debt – The Town had the following authorized and unissued debt as of June 30, 2017:

Septic Loan	\$ 4,911
MCWT	3,100
Water Tank	<u>1,700,000</u>
Total	<u>\$ 1,708,011</u>

G. Capital Leases

The Town has entered into non-cancelable leases for the purchase of a fire truck. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	<u>Amount</u>
<i>Asset:</i>	
Aerial Fire Ladder Truck	\$ 731,019
Less: accumulated depreciation	<u>(621,367)</u>
Total	<u>\$ 109,652</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and is administered by the Essex Regional Retirement Board (ERRB). Standalone financial statements for the year ended December 31, 2016 were issued and may be obtained by writing to the Essex Regional Retirement System, 401 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the Retirement System as of December 31, 2016, was as follows:

Retirees and beneficiaries currently receiving benefits	1,798
Active plan members	2,722
Inactive plan members	<u>1,149</u>
Total	<u>5,669</u>

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of

80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$571,759 to the System in fiscal year 2017, which was equal to its actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 25.9% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$7,273,721 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 1.9% at December 31, 2016, which was consistent with the proportion measured at January 1, 2016.

Pension Expense – The Town recognized \$808,147 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings	\$ 318,626	\$ -
Changes in proportion differences	107,429	-
Changes in assumptions	308,267	-
Difference between expected and actual experience	-	130,988
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	183,623
Total	<u>\$ 734,322</u>	<u>\$ 314,611</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

<u>Year ended June 30,</u>		
2018	\$	110,730
2019		110,730
2020		117,644
2021		67,048
2022		13,559
Total	\$	<u>419,711</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Actuarial cost method:	Entry age normal cost method
Amortization method:	The total appropriation is set to increase annually by 7.41% for five years, then by 6.36% for one year and 4% increases annually thereafter until the final year which will be 3.89%.
Remaining amortization period:	18 years for the fresh start base
Asset valuation method:	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Investment rate of return:	7.75% per year
Projected salary increases:	3.75% Ultimate rate, with steps. 7.5% year one, 6.5% year two, 6.0% year three, 5.5% year four, 5.0% year five.
Cost of living adjustments:	3% of the first \$13,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates:	Pre-retirement: the RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.
Disabled life mortality:	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Long-Term	
	Target Allocation	Expected Real Rate of Return
Core bonds	4.00%	5.00%
20+ year treasuries	3.75%	5.00%
TIPS	3.75%	3.00%
Large cap equities	7.50%	14.50%
Mid/small cap equities	7.75%	3.50%
International equities	7.83%	16.00%
Emerging market equities	9.61%	6.00%
High-yield bonds	5.75%	1.50%
Bank loans	6.00%	1.50%
EMD (external)	5.75%	1.00%
EMD (local currency)	6.50%	2.00%
Private debt	9.06%	4.00%
Private equity	9.50%	10.00%
Real estate	6.50%	10.00%
Hedge funds	6.48%	13.00%
Timber/natural resources	6.00%	4.00%

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

Sensitivity Analysis – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% decrease	Current	1% increase
	Discount Rate	Discount Rate	Discount Rate
	6.75%	7.75%	8.75%
Net Pension Liability	\$ 8,902,873	\$ 7,273,721	\$ 6,068,431

B. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town participates in a health insurance risk pool administered by the Southeastern Massachusetts Health Group (the Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. In the event the Group is terminated, the Town would be obligated to pay its proportionate share of a deficit, should one exist.

C. Tax Abatements

The Town enters into property tax abatements with local businesses as an incentive for economic growth, including expansion of current facilities and job opportunities for local residents. The agreements are commonly referred to as tax increment financing, or TIF, agreements. Under Massachusetts General Law Chapter 40, Section 59, property owners may be granted property tax abatements of up to 100% of the value of a tax increment for a maximum term of twenty years provided the property is located in a TIF zone. TIF zones are approved by the Massachusetts Economic Assistance Coordinating Council. Furthermore, the Town Meeting must approve all TIF agreements.

For the fiscal year ended June 30, 2017, the Town did not abate any property taxes under this program to any property owners.

D. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a cost sharing single-employer defined benefit healthcare plan (the “Plan”). The Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B Section 20. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

Under Chapter 32B Section 20 the Town Treasurer is the custodian of the Plan and since the Town has not designated a Board of Trustees the Town Treasurer under this general law is also the Trustee and as such, is responsible for the general supervision of the management, investment and reinvestment of the Plan assets. Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund board of trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. Plan assets shall be segregated from other funds and shall not be subject to the claims of any general creditor of the Town.

For the year ended June 30, 2017 the Town records its net OPEB obligation as highlighted under GASB 45, however note disclosures are also presented under this caption for the Town’s OPEB Plan since those note disclosures are required under GASB 74. All GASB 45 references will be removed in the fiscal year ended June 30, 2018 as they will no longer be applicable.

Plan Membership - At June 30, 2017, membership in the Plan consisted of:

Inactive employees	29
Active employees	43
Total	<u>72</u>

Contributions – The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees contribute 10 – 20 percent of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Investments – The investment policy for Plan assets is that used for all the Town’s other trust funds; this requires the Town Treasurer to invest in instruments included on the State legal list. Investment Concentration - The Plan did not maintain investments in any one organization that represented more than 5% of the Fiduciary Net Position of the Plan.

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 7.43 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The following was the adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Domestic Equity - Large Cap	19.75%
Domestic Equity - Small/Mid Cap	14.00%
International Equity - Developed Market	10.25%
International Equity - Emerging Market	6.75%
Domestic Fixed Income	28.00%
International Fixed Income	6.25%
Alternatives	14.50%
Real Estate	0.00%
Cash	0.50%
	<u>100.00%</u>

Net OPEB Liability – The components of the Net OPEB Liability of the Town are as follows as calculated using the methodology highlighted in GASB 74:

Total OPEB liability	\$ 1,836,491
Plan Fiduciary Net Position	(1,859,468)
Net OPEB liability/(asset)	<u>\$ (22,977)</u>

Plan Fiduciary Net Position as a percentatge of total liability	101.3%
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Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation.
Single Equivalent Discount Rate	7.00%, net of OPEB plan investment expense including inflation.
Inflation	2.75% annually as of June 30, 2017 and for future periods.
Salary Increases	2.50% annually as of June 30, 2017 and for future periods.
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RPH-2014 Total Dataset mortality table projected with projected with projection scale MP-2016
Post-Retirement Mortality	RPH-2014 Total Dataset mortality table projected with projected with projection scale MP-2016
Disabled Mortality	RPH-2014 Total Dataset mortality table projected with projected with projection scale MP-2016

Changes in Assumptions: Effective June 30, 2017- The following changes in assumptions were made as compared to the actuarial valuation used in prior years:

- The mortality table has been updated to the RPH-2014 Total Dataset mortality table projected using scale MP-2016.
- The healthcare cost trend rate was reset to 9.0% in 2016, grading down 1.0% per annum to an ultimate rate of 5.00% in years 2020 and later.

Investment Rate of Return - The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of investment policy) are summarized in the following table:

Asset Class	Expected Investment Rate of Return
Domestic Equity - Large Cap	4.00%
Domestic Equity - Small/Mid Cap	6.00%
International Equity - Developed Market	4.50%
International Equity - Emerging Market	7.00%
Domestic Fixed Income	2.00%
International Fixed Income	3.00%
Alternatives	6.50%
Real Estate	6.25%
Cash	0.00%
Real rate of return	4.25%
Inflation assumption	2.75%
Total nominal rate of return	7.00%
Investment expense	0.00%
Net investment return	7.00%

Discount rate - The discount rate used to measure the total OPEB liability was 7.0 percent. This was a blended rate of (1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments and are invested using a strategy to achieve that return and; (2) a yield rate for a 20 year, tax exempt general obligation municipal bond with an average rating of AA/Aa or higher when the conditions in (1) are not met.

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

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Net OPEB Liability/(Asset)	\$ 251,031	\$ (22,977)	\$ (244,432)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability of the Town, as well as what the Town's net 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:

		Healthcare	
	1% Decrease (4%)	Trend Rate (5%)	1% Increase (6%)
Net OPEB Liability/(Asset)	\$ (260,294)	\$ (22,977)	\$ 274,683

Annual OPEB Cost and Net OPEB Obligation – The Town's annual OPEB cost is calculated based on the annual required contribution "ARC" of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contribution (ARC)	\$ 121,807
Interest on net OPEB obligation	(18,654)
Adjustment to ARC	9,627
Annual OPEB cost	112,780
Contributions made	(73,798)
Increase in net OPEB obligation	38,982
Net OPEB obligation/(asset) at beginning of year	(266,487)
Net OPEB obligation/(asset) at end of year	\$ (227,505)

Trend information regarding Town's annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of AOPEBC Contributed	Net OPEB Obligation/ (Asset)
June 30, 2017	112,780	65.4%	\$ (227,505)
June 30, 2016	42,633	65.0%	\$ (266,487)
June 30, 2015	42,633	120.0%	\$ (281,513)

The annual OPEB cost of \$112,780 was allocated to functional items as follows:

General Government	\$ 23,635
Public Safety	72,129
Public Works	17,218
Health and Human Services	6,291
Culture and Recreation	9,108
Water	(15,601)
	<u>\$ 112,780</u>

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2017, based on the most recent actuarial valuation performed as of July 1, 2016, was as follows:

	Actuarial Accrued Liability	Unfunded			UAAL as a Percentage of Covered Payroll
Actuarial Value of Assets (A)	(AAL) Entry Age Normal Cost (B)	AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	(B-A)/C
\$ 1,859,185	\$ 1,786,575	\$(72,610)	104.1%	\$2,596,126	-2.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	July 1, 2016
Actuarial cost method	Individual Entry Age
Amortization method	Level Percent of Payroll
Remaining amortization period	3.56 Years
Interest discount rate	7.00%
Inflation rate	2.75%
Healthcare/Medical cost trend rate	5.00%
Salaries	0.00%

- E. Commitments and Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2017.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The

amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

F. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 74 had a material effect on the Town.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 77 did not have a material effect on the Town.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 were applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state or local governmental employer. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 78 did not have a material effect on the Town.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 80 did not have a material effect on the Town.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 82 was to address issues raised with respect to previously issued statements related to pensions. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 82 did not have a material effect on the Town.

Future Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial

support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town expects adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS****YEAR ENDED JUNE 30, 2017**

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY*(dollar amounts are in thousands)*

	Year Ended December 31,		
	2016	2015	2014
Town's proportion of the net pension liability (asset)	1.888%	1.853%	1.906%
Town's proportionate share of the net pension liability (asset)	\$ 7,274	\$ 6,733	\$ 6,466
Town's covered-employee payroll	\$ 2,205	\$ 2,379	\$ 2,288
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	329.9%	283.0%	282.6%
Plan fiduciary net position as a percentage of the total pension liability	51.1%	51.0%	52.3%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN*(dollar amounts are in thousands)*

	Year Ended June 30,		
	2017	2016	2015
Actuarially determined contribution	\$ 572	\$ 656	\$ 509
Contributions in relation to the actuarially determined contribution	<u>572</u>	<u>656</u>	<u>509</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,205	\$ 2,379	\$ 2,288
Contributions as a percentage of covered-employee payroll	25.9%	27.6%	22.2%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF WEST NEWBURY, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2016	\$ 1,859,185	\$ 1,786,575	\$ (72,610)	104.1%	\$ 2,596,126.0	-2.8%
7/1/2013	1,725,982	1,550,852	(175,130)	111.3%	2,201,970	-8.0%
7/1/2010	-	2,790,897	2,790,897	0.0%	2,082,947	134.0%
7/1/2007	-	2,819,000	2,819,000	0.0%	2,300,000	122.6%

Other Postemployment Benefits

Year Ended June 30	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2017	\$ 112,780	\$ 73,798	65%
2016	42,633	27,607	65%
2015	42,633	51,356	120%
2014	49,487	162,128	328%
2013	202,407	304,109	150%
2012	276,696	335,813	121%

See accompanying notes to required supplementary information

TOWN OF WEST NEWBURY, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS**

	2017
Total OPEB liability:	
Service cost	\$ 55,931
Interest	126,392
Changes in benefit terms	-
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(73,798)
Other	(58,609)
Net change in total OPEB liability	49,916
Total OPEB liability - beginning of year	1,786,575
Total OPEB liability - end of year (a)	<u>\$ 1,836,491</u>
Plan fiduciary net position:	
Contributions - employer	\$ 73,798
Net investment income	120,838
Benefit payments	(73,798)
Administrative expenses	-
Other	12,376
Net change in Plan fiduciary net position	133,214
Plan fiduciary net position - beginning of year	1,726,254
Plan fiduciary net position - end of year (b)	<u>\$ 1,859,468</u>
Net OPEB liability (asset) - end of year (a) - (b)	<u>\$ (22,977)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	101.25%
Covered-employee payroll	\$ 2,596,126
Net OPEB liability as a percentage of covered- employee payroll	-0.89%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b.

See independent auditors' report.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

**SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	<u>2017</u>
Actuarially-determined contribution	\$ 121,807
Contributions in relation to the actuarially-determined contribution	<u>(121,807)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered-employee payroll	\$ 2,596,126
Contribution as a percentage of covered-employee payroll	4.7%
Valuation Date	July 1, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Period	3.56 Years
Asset Valuation Method	Level Percent of Payroll
Inflation	2.75%
Healthcare cost trend rates	5.00%
Salary increases	0.00%
Investment rate of return	7.00%

**SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS**

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	7.43%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. however, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

TOWN OF WEST NEWBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance
	Original	Final	Budgetary	and continuing	Budgetary	Positive
	Budget	Budget	Amounts	appropriations	Adjusted	(Negative)
REVENUES						
Real estate and personal property taxes, net	\$ 12,617,804	\$ 12,617,804	\$ 12,730,216		\$ 12,730,216	\$ 112,412
Intergovernmental	354,321	354,321	343,703		343,703	(10,618)
Motor vehicle and other excises	573,535	573,535	736,733		736,733	163,198
License and permits	126,225	126,225	175,404		175,404	49,179
Departmental and other revenue	133,903	133,903	255,712		255,712	121,809
Penalties and interest on taxes	30,000	30,000	39,633		39,633	9,633
Fines, Fees and forfeitures	18,000	18,000	16,473		16,473	(1,527)
Investment income	19,000	19,000	38,095		38,095	19,095
Total Revenues	13,872,788	13,872,788	14,335,969		14,335,969	463,181
EXPENDITURES						
General government	1,222,944	1,207,944	970,690	\$ 133,222	1,103,912	104,032
Public safety	1,742,253	2,083,253	1,622,529	409,141	2,031,670	51,583
Education	7,549,513	7,549,513	7,537,407	12,106	7,549,513	-
Public works	1,467,779	1,678,779	1,378,933	213,265	1,592,198	86,581
Health and human services	624,088	624,088	528,671	61,983	590,654	33,434
Culture and recreation	391,651	391,651	381,799	1,642	383,441	8,210
Fringe Benefits	946,101	946,101	872,860	-	872,860	73,241
State and county tax assessments	79,944	79,944	74,485	776	75,261	4,683
Debt service	915,166	915,166	807,766	-	807,766	107,400
Total Expenditures	14,939,439	15,476,439	14,175,140	\$ 832,135	15,007,275	469,164
OTHER FINANCING SOURCES (USES)						
Transfers in	155,496	155,496	155,496		155,496	-
Transfers out	(187,216)	(187,216)	(187,216)		(187,216)	-
Total Other Financing Sources (Uses)	(31,720)	(31,720)	(31,720)		(31,720)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(1,098,371)	(1,635,371)	\$ 129,109		\$ (703,026)	\$ 932,345
Other Budgetary Items:						
Undesignated surplus (free cash)	\$ 397,321	\$ 934,321				
Prior year deficits	(1,494)	(1,494)				
Prior year encumbrances	702,544	702,544				
Total Other Budgetary Items	1,098,371	1,635,371				
Net Budget	\$ -	\$ -				

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

TOWN OF WEST NEWBURY, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town Meeting members at the Town’s annual meeting in May. Expenditures may not legally exceed appropriations at the department level, or in the categories of salary and non-salary expenses. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each budget categories. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments or categories. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2017, Town Meeting approved approximately \$537,000 in supplemental budgetary increases.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2017, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 14,335,969
Stabilization investment income	\$ -	\$ (630)	(630)
Revenues on a GAAP basis	<u>\$ -</u>	<u>\$ (630)</u>	<u>\$ 14,335,339</u>
Expenditures on a budgetary basis			\$ 14,175,140
Enterprise Fund indirect costs reported as expenditures	\$ (48,096)	\$ -	(48,096)
Expenditures on a GAAP basis	<u>\$ (48,096)</u>	<u>\$ -</u>	<u>\$ 14,127,044</u>
Other financing sources (uses) on a budgetary basis			\$ (31,720)
Enterprise Fund indirect costs reported as expenditures	\$ (48,096)	\$ -	(48,096)
Municipal building trust transfers, net	-	25,000	25,000
Stabilization transfers, net	-	157,216	157,216
Other financing sources (uses) on a GAAP basis	<u>\$ (48,096)</u>	<u>\$ 182,216</u>	<u>\$ 102,400</u>



**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**

The Honorable Members of the Board of Selectmen
Town of West Newbury, Massachusetts

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of West Newbury, Massachusetts (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

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.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 27, 2018