

**TOWN OF SOUTHAMPTON, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Southamton, Massachusetts

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

### **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 Southamton, Massachusetts, 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**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southampton, Massachusetts, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB Schedules appearing on pages 57 to 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Melanson Heath*

April 24, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town'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).

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water and transfer station operations, which are considered major funds.

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

**Notes to 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 which is required to be disclosed by accounting principles generally accepted in the United States of America.

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$16,509,165 (i.e., net position), a change of \$(67,276) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,486,823, a change of \$(691,732) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$767,218, a change of \$(251,833) in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

### STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 5,905,393	\$ 5,613,371	\$ 803,208	\$ 521,913	\$ 6,708,601	\$ 6,135,284
Capital assets	13,189,652	12,706,763	10,448,465	10,613,691	23,638,117	23,320,454
Total assets	19,095,045	18,320,134	11,251,673	11,135,604	30,346,718	29,455,738
Deferred outflows	893,915	907,516	20,576	38,503	914,491	946,019
Current liabilities	1,877,456	932,708	42,351	58,172	1,919,807	990,880
Non-current liabilities	10,980,675	10,828,228	1,710,064	2,006,208	12,690,739	12,834,436
Total liabilities	12,858,131	11,760,936	1,752,415	2,064,380	14,610,546	13,825,316
Deferred inflows	138,314	-	3,184	-	141,498	-
Net position:						
Net investment in capital assets	11,614,128	10,803,179	9,343,205	9,291,812	20,957,333	20,094,991
Restricted	2,592,846	3,061,998	-	-	2,592,846	3,061,998
Unrestricted	(7,214,459)	(6,398,463)	173,445	(182,085)	(7,041,014)	(6,580,548)
Total net position	\$ 6,992,515	\$ 7,466,714	\$ 9,516,650	\$ 9,109,727	\$ 16,509,165	\$ 16,576,441

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$16,509,165, a change of \$(67,276) from the prior year.

The largest portion of net position, \$20,957,333, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$2,592,846, represents resources that are subject to external restrictions and internal designations on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(7,214,459) (governmental) and a surplus of \$173,445 (business-type).

CHANGES IN NET POSITION

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 803,641	\$ 749,125	\$ 1,015,380	\$ 789,817	\$ 1,819,021	\$ 1,538,942
Operating grants and contributions	4,869,387	4,422,121	-	-	4,869,387	4,422,121
Capital grants and contributions	468,151	144,267	-	-	468,151	144,267
General revenues:						
Property taxes	11,298,684	10,878,349	-	-	11,298,684	10,878,349
Excises	974,522	943,177	-	-	974,522	943,177
Penalties, interest and other taxes	210,696	184,519	-	-	210,696	184,519
Grants and contributions not restricted to specific programs	628,354	603,268	-	-	628,354	603,268
Investment income	15,372	16,247	1,374	1,146	16,746	17,393
Miscellaneous	43,673	17,542	98,075	63,301	141,748	80,843
Total revenues	<u>19,312,480</u>	<u>17,958,615</u>	<u>1,114,829</u>	<u>854,264</u>	<u>20,427,309</u>	<u>18,812,879</u>
Expenses:						
General government	983,742	1,393,022	-	-	983,742	1,393,022
Public safety	2,652,025	2,327,521	-	-	2,652,025	2,327,521
Education	13,878,529	12,881,324	-	-	13,878,529	12,881,324
Public works	1,693,069	1,086,554	-	-	1,693,069	1,086,554
Health and human services	200,252	181,078	-	-	200,252	181,078
Culture and recreation	288,303	259,618	-	-	288,303	259,618
Interest on long-term debt	78,239	87,205	-	-	78,239	87,205
Intergovernmental	12,520	13,734	-	-	12,520	13,734
Water	-	-	567,008	619,264	567,008	619,264
Transfer station	-	-	140,898	164,451	140,898	164,451
Total expenses	<u>19,786,679</u>	<u>18,230,056</u>	<u>707,906</u>	<u>783,715</u>	<u>20,494,585</u>	<u>19,013,771</u>
Change in net position before transfers	(474,199)	(271,441)	406,923	70,549	(67,276)	(200,892)
Transfers in (out)	<u>-</u>	<u>(40,492)</u>	<u>-</u>	<u>18,282</u>	<u>-</u>	<u>(22,210)</u>
Change in net position	(474,199)	(311,933)	406,923	88,831	(67,276)	(223,102)
Net position - beginning of year	<u>7,466,714</u>	<u>7,778,647</u>	<u>9,109,727</u>	<u>9,020,896</u>	<u>16,576,441</u>	<u>16,799,543</u>
Net position - end of year	<u>\$ 6,992,515</u>	<u>\$ 7,466,714</u>	<u>\$ 9,516,650</u>	<u>\$ 9,109,727</u>	<u>\$ 16,509,165</u>	<u>\$ 16,576,441</u>

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(474,199). Key elements of this change are as follows:



General fund operations, as discussed further in Section D	\$ (128,093)
Major fund - Community preservation fund expenditures in excess of revenues	(115,075)
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues and transfers in	(387,161)
Non-major fund expenditures in excess of revenues and transfers in	(61,403)
Depreciation expense in excess of principal debt service	(107,837)
Capital assets purchases from grant and general resources	901,576
Net pension liability increase, net of deferrals	(355,873)
Net OPEB liability increase	(264,511)
Other timing differences	<u>44,178</u>
Total	<u>\$ (474,199)</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$406,923. Key elements of this change are as follows:

Water operations	\$ 351,528
Transfer station operations	<u>55,395</u>
Change in net position	<u>\$ 406,923</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, 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.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3,486,823, a change of \$(691,732) in comparison with the prior year. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (128,093)
Major fund - Community preservation fund expenditures in excess of revenues	(115,075)
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues and transfers in	(387,161)
Non-major fund expenditures in excess of revenues and transfers in	<u>(61,403)</u>
Total	<u>\$ (691,732)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$767,218, while total fund balance was \$912,248. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% of Total 2017 General Fund Expenditures</u>
Unassigned fund balance <sup>1</sup>	\$ 767,218	\$ 1,019,051	\$ (251,833)	4.5%
Total fund balance	\$ 912,248	\$ 1,040,341	\$ (128,093)	5.4%

<sup>1</sup> Includes Stabilization funds.

The total fund balance of the general fund changed by \$(128,093) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 54,826
State and local revenues over budget	223,489
Budgetary appropriations unspent by departments	183,646
Use of free cash as a funding source for nonrecurring expenses	(493,980)
Change in Stabilization funds	(58,512)
Other	<u>(37,562)</u>
Total	<u>\$ (128,093)</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
Ambulance stabilization fund	\$ 75,915	\$ 50,300	\$ 25,615
Capital stabilizatou fund	9,530	124,478	(114,948)
Operating stabilization fund	<u>312,491</u>	<u>281,670</u>	<u>30,821</u>
Total	<u>\$ 397,936</u>	<u>\$ 456,448</u>	<u>\$ (58,512)</u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$173,445, a change of \$355,530 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$580,980. Major reasons for these amendments include:

Transfers to:	
Capital stabilization fund	\$ 173,943
Operating stabilization fund	171,723
Special revenue funds	13,575
Capital project funds	9,382
Increase in employee benefits budget	57,000
Contribution to the OPEB trust fund	49,689
Increase in public safety budget	42,760
Removal of gasoline storage tank	30,000
Increase in general government budget	17,908
Other line item increases	<u>15,000</u>
Total	<u>\$ 580,980</u>

Of this increase, \$493,980 was funded by free cash and \$87,000 was funded by a transfer from the operating stabilization fund.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$23,638,117 (net of accumulated depreciation). This investment in capital assets includes land,

construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense - governmental activities	\$ (418,687)
Depreciation expense - business-type activities	(179,699)
Infrastructure	
Water system improvements	44,000
Building and improvements	
HVAC library upgrade	76,162
Pumping station upgrades	12,323
Departmental vehicles and equipment	
Public safety	47,698
Public works	52,716
Land	
Cook Road	725,000
Disposals	<u>(41,850)</u>
Total	<u>\$ 317,663</u>

**Long-term debt.** At the end of the current fiscal year, total long-term debt outstanding was \$3,269,310, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

## **REQUESTS FOR INFORMATION**

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

Ms. Vicki Leigh-Moro  
Town Accountant  
Town of Southampton  
210 College Highway  
Southampton, MA 01073

## TOWN OF SOUTHAMPTON, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 3,499,994	\$ 712,356	\$ 4,212,350
Investments	1,667,738	-	1,667,738
Receivables:			
Property taxes	101,569	-	101,569
Excises	117,859	-	117,859
User fees, net of allowance for uncollectibles	37,153	90,852	128,005
Departmental and other	19,567	-	19,567
Intergovernmental	169,419	-	169,419
Loans	9,992	-	9,992
Noncurrent:			
Property taxes	200,421	-	200,421
Loans, net of current portion	81,681	-	81,681
Land and construction in progress	8,212,315	548,500	8,760,815
Capital assets, net of accumulated depreciation	4,977,337	9,899,965	14,877,302
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	893,915	20,576	914,491
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	19,988,960	11,272,249	31,261,209
<b>LIABILITIES</b>			
Current:			
Warrants payable	876,705	13,111	889,816
Accounts payable	63,662	1,379	65,041
Accrued payroll	408,351	625	408,976
Accrued interest payable	-	27,236	27,236
Notes payable	528,738	-	528,738
Current portion of long-term liabilities:			
Notes payable	161,450	-	161,450
Bonds payable	150,400	167,922	318,322
Other	-	10,885	10,885
Noncurrent:			
Notes payable, net of current portion	52,900	-	52,900
Bonds payable, net of current portion	1,461,000	1,275,638	2,736,638
Net pension liability	6,705,654	154,350	6,860,004
Net OPEB obligation	2,294,185	8,623	2,302,808
Other, net of current portion	155,086	92,646	247,732
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	138,314	3,184	141,498
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	12,996,445	1,755,599	14,752,044
<b>NET POSITION</b>			
Net investment in capital assets	11,614,128	9,343,205	20,957,333
Restricted for:			
Grants and other statutory restrictions	2,063,078	-	2,063,078
Permanent funds:			
Nonexpendable	365,317	-	365,317
Expendable	164,451	-	164,451
Unrestricted	(7,214,459)	173,445	(7,041,014)
<b>TOTAL NET POSITION</b>	<b>\$ 6,992,515</b>	<b>\$ 9,516,650</b>	<b>\$ 16,509,165</b>

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

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

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 983,742	\$ 137,287	\$ 217,337	\$ -	\$ (629,118)	\$ -	\$ (629,118)
Public safety	2,652,025	546,495	41,242	-	(2,064,288)	-	(2,064,288)
Education	13,878,529	94,221	4,428,760	-	(9,355,548)	-	(9,355,548)
Public works	1,693,069	17,589	74,516	468,151	(1,132,813)	-	(1,132,813)
Health and human services	200,252	3,379	72,776	-	(124,097)	-	(124,097)
Culture and recreation	288,303	4,670	34,756	-	(248,877)	-	(248,877)
Interest	78,239	-	-	-	(78,239)	-	(78,239)
Intergovernmental	12,520	-	-	-	(12,520)	-	(12,520)
Total Governmental Activities	<u>19,786,679</u>	<u>803,641</u>	<u>4,869,387</u>	<u>468,151</u>	<u>(13,645,500)</u>	<u>-</u>	<u>(13,645,500)</u>
<b>Business-Type Activities:</b>							
Water services	567,008	826,904	-	-	-	259,896	259,896
Transfer station services	140,898	188,476	-	-	-	47,578	47,578
Total Business-Type Activities	<u>707,906</u>	<u>1,015,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,474</u>	<u>307,474</u>
Total	<u>\$ 20,494,585</u>	<u>\$ 1,819,021</u>	<u>\$ 4,869,387</u>	<u>\$ 468,151</u>	<u>(13,645,500)</u>	<u>307,474</u>	<u>(13,338,026)</u>
<b>General Revenues:</b>							
					11,298,684	-	11,298,684
					974,522	-	974,522
					210,696	-	210,696
					628,354	-	628,354
					15,372	1,374	16,746
					43,673	98,075	141,748
Total general revenues					<u>13,171,301</u>	<u>99,449</u>	<u>13,270,750</u>
Change in net position					(474,199)	406,923	(67,276)
<b>Net Position:</b>							
Beginning of year					<u>7,466,714</u>	<u>9,109,727</u>	<u>16,576,441</u>
End of year					<u>\$ 6,992,515</u>	<u>\$ 9,516,650</u>	<u>\$ 16,509,165</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 1,240,142	\$ 800,901	\$ 890,552	\$ 568,399	\$ 3,499,994
Investments	74,260	1,082,013	-	511,465	1,667,738
Receivables:					
Property taxes	98,298	3,271	-	-	101,569
Tax liens	200,421	-	-	-	200,421
Excises	117,859	-	-	-	117,859
User fees, net of allowance for uncollectibles	-	-	37,153	-	37,153
Departmental and other	-	-	-	19,567	19,567
Intergovernmental	-	-	18,306	151,113	169,419
Loans	-	-	91,673	-	91,673
<b>TOTAL ASSETS</b>	<b><u>\$ 1,730,980</u></b>	<b><u>\$ 1,886,185</u></b>	<b><u>\$ 1,037,684</u></b>	<b><u>\$ 1,250,544</u></b>	<b><u>\$ 5,905,393</u></b>
<b>LIABILITIES</b>					
Warrants payable	\$ 22,907	\$ 388,249	\$ 317,441	\$ 148,108	\$ 876,705
Accounts payable	37,606	-	25,825	231	63,662
Accrued payroll	349,202	-	491	58,658	408,351
Notes payable	-	-	528,738	-	528,738
<b>TOTAL LIABILITIES</b>	<b>409,715</b>	<b>388,249</b>	<b>872,495</b>	<b>206,997</b>	<b>1,877,456</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues	409,017	3,271	128,826	-	541,114
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	365,317	365,317
Restricted	-	-	440,100	564,404	1,004,504
Committed	85,445	1,494,665	-	113,826	1,693,936
Assigned	59,585	-	-	-	59,585
Unassigned	767,218	-	(403,737)	-	363,481
<b>TOTAL FUND BALANCES</b>	<b><u>912,248</u></b>	<b><u>1,494,665</u></b>	<b><u>36,363</u></b>	<b><u>1,043,547</u></b>	<b><u>3,486,823</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 1,730,980</u></b>	<b><u>\$ 1,886,185</u></b>	<b><u>\$ 1,037,684</u></b>	<b><u>\$ 1,250,544</u></b>	<b><u>\$ 5,905,393</u></b>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

<b>Total Governmental Fund Balances</b>	\$ 3,486,823
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</li></ul>	13,189,652
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles) and are not deferred until collection.</li></ul>	541,114
<ul style="list-style-type: none"><li>• Long-term liabilities, including notes payable, bonds payable, accrued compensated absences, net OPEB obligation and net pension liability, net of deferrals, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(10,225,074)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 6,992,515</u>

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



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

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 11,135,476	\$ 204,376	\$ -	\$ 7,421	\$ 11,347,273
Excises	939,791	-	-	-	939,791
Penalties, interest and other taxes	199,965	10,731	-	-	210,696
Charges for services	69,437	-	197,117	277,858	544,412
Intergovernmental	4,288,210	111,173	214,593	1,306,194	5,920,170
Licenses and permits	238,087	-	-	-	238,087
Fines and forfeitures	14,000	-	-	-	14,000
Investment income	7,537	-	-	7,835	15,372
Miscellaneous	43,673	-	-	-	43,673
	<u>16,936,176</u>	<u>326,280</u>	<u>411,710</u>	<u>1,599,308</u>	<u>19,273,474</u>
<b>Total Revenues</b>					
<b>Expenditures:</b>					
Current:					
General government	551,201	52,839	75,007	24,879	703,926
Public safety	1,665,101	-	48,760	224,526	1,938,387
Education	11,211,204	-	1,500	1,130,855	12,343,559
Public works	831,044	386,863	405,702	519,229	2,142,838
Health and human services	109,046	1,653	22,757	24,927	158,383
Culture and recreation	154,529	-	24,295	94,393	273,217
Employee benefits	2,003,287	-	-	-	2,003,287
Debt service	389,089	-	-	-	389,089
Intergovernmental	12,520	-	-	-	12,520
	<u>16,927,021</u>	<u>441,355</u>	<u>578,021</u>	<u>2,018,809</u>	<u>19,965,206</u>
<b>Total Expenditures</b>					
Excess (deficiency) of revenues over expenditures	9,155	(115,075)	(166,311)	(419,501)	(691,732)
<b>Other Financing Sources (Uses):</b>					
Transfers in	241,301	-	20,451	358,098	619,850
Transfers out	(378,549)	-	(241,301)	-	(619,850)
	<u>(137,248)</u>	<u>-</u>	<u>(220,850)</u>	<u>358,098</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>					
Change in fund balance	(128,093)	(115,075)	(387,161)	(61,403)	(691,732)
Fund Balance, at Beginning of Year	1,040,341	1,609,740	423,524	1,104,950	4,178,555
Fund Balance, at End of Year	<u>\$ 912,248</u>	<u>\$ 1,494,665</u>	<u>\$ 36,363</u>	<u>\$ 1,043,547</u>	<u>\$ 3,486,823</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ (691,732)</b>										
<ul style="list-style-type: none"> <li>• 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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital asset purchases</td> <td style="text-align: right;">901,576</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(418,687)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and long-term notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">310,850</td> </tr> </table> </li> <li>• Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectibles. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">39,006</td> </tr> </table> </li> <li>• Some expenses reported in the statement of activities, such as accrued compensated absences, net OPEB obligation and net pension liability, net of deferrals, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(615,212)</u></td> </tr> </table> </li> </ul>		Capital asset purchases	901,576	Depreciation	(418,687)	Repayments of debt	310,850		39,006		<u>(615,212)</u>
Capital asset purchases	901,576										
Depreciation	(418,687)										
Repayments of debt	310,850										
	39,006										
	<u>(615,212)</u>										
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(474,199)</u></b>										

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Transfers In:</b>				
Property taxes	\$ 11,080,650	\$ 11,080,650	\$ 11,080,650	\$ -
Excises	857,500	857,500	939,791	82,291
Penalties, interest and other taxes	169,000	169,000	199,965	30,965
Charges for services	71,840	71,840	69,437	(2,403)
Intergovernmental	3,221,019	3,221,019	3,232,909	11,890
Licenses and permits	185,350	185,350	238,087	52,737
Fines and forfeitures	10,000	10,000	14,000	4,000
Investment income	5,500	5,500	5,836	336
Miscellaneous	-	-	43,673	43,673
Transfers in	236,109	323,109	323,109	-
Total Revenues and Transfers In	15,836,968	15,923,968	16,147,457	223,489
<b>Expenditures and Transfers Out:</b>				
General government	562,250	580,158	565,323	14,835
Public safety	1,633,229	1,675,989	1,670,502	5,487
Education	10,213,092	10,213,092	10,100,580	112,512
Public works	847,176	882,176	844,919	37,257
Health and human services	101,500	111,500	109,104	2,396
Culture and recreation	159,853	159,853	154,778	5,075
Employee benefits	1,900,835	2,007,524	2,003,864	3,660
Debt service	391,513	391,513	389,089	2,424
Intergovernmental	12,520	12,520	12,520	-
Transfers out	15,000	383,623	383,623	-
Total Expenditures and Transfers Out	15,836,968	16,417,948	16,234,302	183,646
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(493,980)	(86,845)	407,135
<b>Other Financing Sources/Uses:</b>				
Use of free cash:				
Operating budget	-	75,668	-	(75,668)
Transfer to Stabilization funds	-	345,666	-	(345,666)
Transfer to Special revenue funds	-	13,575	-	(13,575)
Transfer to Capital project funds	-	9,382	-	(9,382)
Contribution to OPEB fund	-	49,689	-	(49,689)
Total Other Financing Sources/Uses	-	493,980	-	(493,980)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (86,845)	\$ (86,845)

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 694,824	\$ 17,532	\$ 712,356
User fees, net of allowance for uncollectibles	90,852	-	90,852
Total current assets	785,676	17,532	803,208
Noncurrent:			
Land	368,900	179,600	548,500
Capital assets, net of accumulated depreciation	9,892,376	7,589	9,899,965
Total noncurrent assets	10,261,276	187,189	10,448,465
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	16,186	4,390	20,576
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	11,063,138	209,111	11,272,249
<b>LIABILITIES</b>			
Current:			
Warrants payable	3,946	9,165	13,111
Accounts payable	1,379	-	1,379
Accrued payroll	459	166	625
Accrued interest payable	27,236	-	27,236
Current portion of long-term liabilities:			
Bonds payable	147,922	20,000	167,922
Other	-	10,885	10,885
Total current liabilities	180,942	40,216	221,158
Noncurrent:			
Bonds payable, net of current portion	1,235,638	40,000	1,275,638
Net pension liability	121,422	32,928	154,350
Net OPEB obligation	8,623	-	8,623
Other, net of current portion	5,566	87,080	92,646
Total noncurrent liabilities	1,371,249	160,008	1,531,257
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	2,504	680	3,184
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	1,554,695	200,904	1,755,599
<b>NET POSITION</b>			
Net investment in capital assets	9,156,016	187,189	9,343,205
Unrestricted	352,427	(178,982)	173,445
<b>TOTAL NET POSITION</b>	<b>\$ 9,508,443</b>	<b>\$ 8,207</b>	<b>\$ 9,516,650</b>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 786,779	\$ 188,476	\$ 975,255
Other	40,125	-	40,125
Total Operating Revenues	826,904	188,476	1,015,380
<b>Operating Expenses:</b>			
Salaries and benefits	40,960	7,498	48,458
Other operating expenses	274,234	129,224	403,458
Depreciation	179,198	501	179,699
Total Operating Expenses	494,392	137,223	631,615
Operating Income	332,512	51,253	383,765
<b>Nonoperating Revenues (Expenses):</b>			
Intergovernmental revenue	90,262	7,813	98,075
Investment income	1,370	4	1,374
Interest expense	(72,616)	(3,675)	(76,291)
Total Nonoperating Revenues (Expenses), Net	19,016	4,142	23,158
Change in Net Position	351,528	55,395	406,923
Net Position at Beginning of Year	9,156,915	(47,188)	9,109,727
Net Position at End of Year	\$ 9,508,443	\$ 8,207	\$ 9,516,650

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 822,366	\$ 188,476	\$ 1,010,842
Payments to vendors and employees	<u>(402,311)</u>	<u>(172,504)</u>	<u>(574,815)</u>
Net Cash Provided By Operating Activities	420,055	15,972	436,027
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Intergovernmental receipt	<u>90,262</u>	<u>7,813</u>	<u>98,075</u>
Net Cash Provided By Noncapital Financing Activities	90,262	7,813	98,075
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(14,473)	-	(14,473)
Principal payments on bonds and notes	(146,469)	(20,000)	(166,469)
Interest expense	<u>(74,102)</u>	<u>(3,675)</u>	<u>(77,777)</u>
Net Cash (Used For) Capital and Related Financing Activities	(235,044)	(23,675)	(258,719)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>1,370</u>	<u>4</u>	<u>1,374</u>
Net Cash Provided By Investing Activities	1,370	4	1,374
Net Change in Cash and Short-Term Investments	276,643	114	276,757
Cash and Short Term Investments, Beginning of Year	<u>418,181</u>	<u>17,418</u>	<u>435,599</u>
Cash and Short Term Investments, End of Year	<u>\$ 694,824</u>	<u>\$ 17,532</u>	<u>\$ 712,356</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u></b>			
Operating income	\$ 332,512	\$ 51,253	\$ 383,765
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	179,198	501	179,699
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	(4,538)	-	(4,538)
Deferred outflows - related to pensions	13,708	4,219	17,927
Warrants payable	(13,746)	(1,214)	(14,960)
Accrued liabilities	843	166	1,009
Landfill liability	-	(10,885)	(10,885)
Net pension liability	(92,748)	(28,748)	(121,496)
Net OPEB obligation	2,322	-	2,322
Deferred inflows - related to pensions	<u>2,504</u>	<u>680</u>	<u>3,184</u>
Net Cash Provided By Operating Activities	<u>\$ 420,055</u>	<u>\$ 15,972</u>	<u>\$ 436,027</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Other Post Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 444	\$ 22,063
Investments	<u>131,212</u>	<u>132,531</u>
Total Assets	131,656	154,594
 <b>LIABILITIES</b>		
Other liabilities	<u>-</u>	<u>154,594</u>
Total Liabilities	<u>-</u>	<u>154,594</u>
 <b>NET POSITION</b>		
Total net position restricted for pensions and other purposes	\$ <u><u>131,656</u></u>	\$ <u><u>-</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Other Post Employment Benefits <u>Trust Fund</u>
<b>Additions:</b>	
Contributions	\$ 245,005
Interest income	<u>6,437</u>
Total additions	251,442
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	<u>195,315</u>
Net increase	56,127
<b>Net position restricted for pensions and other purposes:</b>	
Beginning of year	<u>75,529</u>
End of year	<u>\$ 131,656</u>

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



## Town of Southampton, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Southampton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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.

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

###### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds

and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community preservation fund* is a fund authorized by Massachusetts General Laws Chapter 44B, under which the Town receives State aid and assesses taxpayers a surcharge on real

property. Within certain limits, the Town may appropriate funds from this account for various purposes that fall under the categories of open space, historic preservation or community housing.

- The *other special revenue funds* is used to account for the receipt and expenditure of certain Town grant and revolving funds. These include ambulance, community development block grant, and the October 2011 snow storm fund.

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 liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund*, which accounts for operations of the Town's water delivery system.
- The *transfer station enterprise fund*, which accounts for the operations of the Town's landfill.

The fiduciary 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 liabilities are incurred.

The Town reports the following fiduciary funds:

- The *other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

*D. Cash and Short-Term Investments*

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments consist of certificates of deposit, corporate bonds, corporate equities, mutual funds, and US Treasury notes. These investments are not carried at fair value by the Town; however, adjustments have been made to report them at fair value, except certificates of deposit, which are reported at cost.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 ½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$4,783.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or

business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	40
Building improvements	40
Water infrastructure	100
Vehicles and equipment	5 - 10

*H. Compensated Absences*

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is 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, for example, as a result of employee resignations and retirements.

*I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

*J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

#### K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

## 2. Stewardship, Compliance and Accountability

### A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the

usual line, or are great or exceptional. “Unforeseen” includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

*B. Budgetary Basis*

The general fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

*C. Budget/GAAP Reconciliation*

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 16,936,176	\$ 16,927,021
Other financing sources/uses (GAAP basis)	<u>241,301</u>	<u>378,549</u>
Subtotal (GAAP basis)	17,177,477	17,305,570
Remove the effect of adding the Town's Stabilization funds per GASB 54	80,107	5,074
Adjust tax revenue to accrual basis	(54,826)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(80,626)
Add end of year appropriation carryforwards to expenditures	-	59,585
Reverse the effect on non-budgeted State contributions for teachers retirement	<u>(1,055,301)</u>	<u>(1,055,301)</u>
Budgetary basis	<u>\$ 16,147,457</u>	<u>\$ 16,234,302</u>

**D. Deficit Fund Equity**

Certain individual funds reflected deficit balances as of June 30, 2017:

October 2011 Snow Storm	\$ (65,600)
DWSP grant	<u>(338,137)</u>
	<u>\$ (403,737)</u>

It is anticipated that the deficits in these funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds and/or transfers from other funds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2017, \$666,493 of the Town's bank balance of \$4,052,827 was exposed to custodial credit risk as it represents the Town's deposit in repurchase agreements. These deposits are held by the investment's counterparty and are not in the name of the Town.



#### 4. Investments

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

Investment Type	Amount	Exempt from Disclosure	Rating as of Year End				
			AAA	AA1	A2	A3	Baa1
Certificates of deposit	\$ 447,380	\$ 447,380	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	315,357	-	-	-	165,796	59,917	89,644
Corporate equities	274,829	274,829	-	-	-	-	-
Mutual funds	107,074	107,074	-	-	-	-	-
US Treasury notes/ bonds	786,841	-	238,534	548,307	-	-	-
Total	\$ 1,931,481	\$ 829,283	\$ 238,534	\$ 548,307	\$ 165,796	\$ 59,917	\$ 89,644

##### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

##### C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have investments in any one issuer that represent 5% or more of total investments.

##### D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the

maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>		
			<u>Less than 1 year</u>	<u>1-5 years</u>	<u>10+ years</u>
Certificates of deposit	\$ 447,380	\$ -	\$ 84,993	\$ 362,387	\$ -
Corporate bonds	315,357	-	159,900	139,457	16,000
Corporate equities	274,829	274,829	-	-	-
Mutual funds	107,074	107,074	-	-	-
US Treasury notes/ bonds	786,841	-	-	786,841	-
Total	\$ <u>1,931,481</u>	\$ <u>381,903</u>	\$ <u>244,893</u>	\$ <u>1,288,685</u>	\$ <u>16,000</u>

#### E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk; however, the risk is managed by limiting the investments to the Commonwealth's "Legal List of Investments".

#### F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

<u>Description</u>	<u>Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities:				
Corporate bonds	\$ 315,357	\$ -	\$ 315,357	\$ -
U.S. Treasury notes/bonds	786,841	-	786,841	-
Corporate equities	274,829	274,829	-	-
Mutual funds	107,074	107,074	-	-
Total	<u>\$ 1,484,101</u>	<u>\$ 381,903</u>	<u>\$ 1,102,198</u>	<u>\$ -</u>

## 5. Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excises receivable at June 30, 2017 consist of the following:

	<u>Net Amount</u>
<u>Receivables:</u>	
Real estate taxes	\$ 93,150
Personal property taxes	5,148
Other	<u>3,271</u>
Total current property taxes	101,569
Tax liens	200,421
Motor vehicle excise	117,045
Other excise	<u>814</u>
Total excises	<u>117,859</u>
Grand Total	<u>\$ 419,849</u>

## 6. User Fee Receivables

Receivables for user charges at June 30, 2017 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Receivables:</u>			
<u>Governmental Activities:</u>			
Ambulance	\$ <u>80,712</u>	\$ <u>(43,559)</u>	\$ <u>37,153</u>
<u>Business-Type Activities:</u>			
Water	<u>101,329</u>	<u>(10,477)</u>	<u>90,852</u>
Total	<u>\$ 182,041</u>	<u>\$ (54,036)</u>	<u>\$ 128,005</u>

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

## 8. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

## 9. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 27,546,599	\$ 76,162	\$ -	\$ 27,622,761
Machinery, equipment and furnishings	3,332,420	100,414	(21,170)	3,411,664
Infrastructure	67,699	-	-	67,699
	<u>30,946,718</u>	<u>176,576</u>	<u>(21,170)</u>	<u>31,102,124</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(23,217,026)	(205,015)	-	(23,422,041)
Machinery, equipment and furnishings	(2,506,859)	(210,287)	21,170	(2,695,976)
Infrastructure	(3,385)	(3,385)	-	(6,770)
	<u>(25,727,270)</u>	<u>(418,687)</u>	<u>21,170</u>	<u>(26,124,787)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	5,219,448	(242,111)	-	4,977,337
Capital assets, not being depreciated:				
Land	7,467,600	725,000	-	8,192,600
Construction in progress (CIP)	19,715	-	-	19,715
	<u>7,487,315</u>	<u>725,000</u>	<u>-</u>	<u>8,212,315</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 12,706,763</u>	<u>\$ 482,889</u>	<u>\$ -</u>	<u>\$ 13,189,652</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,329,025	\$ 12,323	\$ -	\$ 1,341,348
Machinery, equipment and furnishings	123,166	-	-	123,166
Infrastructure	12,203,977	44,000	-	12,247,977
	<u>13,656,168</u>	<u>56,323</u>	<u>-</u>	<u>13,712,491</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(1,091,659)	(39,112)	-	(1,130,771)
Machinery, equipment, and furnishings	(31,532)	(18,107)	-	(49,639)
Infrastructure	(2,509,636)	(122,480)	-	(2,632,116)
	<u>(3,632,827)</u>	<u>(179,699)</u>	<u>-</u>	<u>(3,812,526)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	10,023,341	(123,376)	-	9,899,965
Capital assets, not being depreciated:				
Land	548,500	-	-	548,500
Construction in progress (CIP)	41,850	-	(41,850)	-
	<u>590,350</u>	<u>-</u>	<u>(41,850)</u>	<u>548,500</u>
Total capital assets, not being depreciated				
Business-type activities capital assets, net	<u>\$ 10,613,691</u>	<u>\$ (123,376)</u>	<u>\$ (41,850)</u>	<u>\$ 10,448,465</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 117,953
Public safety	95,849
Education	45,300
Public works	112,392
Health and human services	5,431
Culture and recreation	<u>41,762</u>
Total depreciation expense - governmental activities	<u>\$ 418,687</u>
Business-Type Activities:	
Water	\$ 179,198
Transfer Station	<u>501</u>
Total depreciation expense - business-type activities	<u>\$ 179,699</u>

#### 10. **Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions in accordance with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* are more formally discussed in Note 18.

#### 11. **Warrants and Accounts Payable**

Warrants payable represent 2017 expenditures paid by July 15, 2017. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

#### 12. **Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2017</u>
MCWT septic program note	0.00%	05/21/15	n/a	\$ 150,000
Grant anticipation	0.85%	07/22/16	07/21/17	65,600
Grant anticipation	1.05%	06/29/17	12/14/17	<u>313,138</u>
				<u>\$ 528,738</u>

The following summarizes activity in notes payable during fiscal year 2017:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Grant anticipation	\$ 80,600	\$ 378,738	\$ (80,600)	\$ 378,738
MCWT note	50,000	100,000	-	150,000
Total	<u>\$ 130,600</u>	<u>\$ 478,738</u>	<u>\$ (80,600)</u>	<u>\$ 528,738</u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

The Town issues general obligation bonds and long-term notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Bonds Payable -</u>	Serial	Interest	Amount
<u>Governmental Activities:</u>	<u>Maturities</u>	<u>Rate(s)%</u>	<u>Outstanding</u>
	<u>Through</u>		<u>as of</u>
			<u>June 30, 2017</u>
MWPAT - Pequot Pond Sewer	08/01/19	1.0 - 2.0	\$ 60,000
MWPAT - Title V Loans	08/01/20	1.0 - 2.0	41,400
MWPAT - Septic Betterment	07/15/25	-	67,500
MWPAT - Septic Betterment	07/15/27	-	27,500
Larrabee Renovation	06/30/30	2.0 - 5.0	<u>1,415,000</u>
Total Bonds Payable - Governmental Activities			1,611,400
<u>Bonds Payable -</u>			
<u>Business-Type Activities:</u>			
MWPAT - Landfill capping	08/01/19	1.0 - 2.0	60,000
MWPAT - Country Road (Water)	08/01/19	1.0 - 2.0	190,000
MWPAT - Water system upgrade	08/01/22	1.0 - 2.0	395,000
Water system expansion (RDA Loan)	04/06/33	5.63	313,199
Water system expansion # 3 (RDA Loan)	10/01/35	5.38	<u>485,361</u>
Total Bonds Payable - Business-Type Activities			<u>1,443,560</u>
Total Bonds Payable			<u>\$ 3,054,960</u>

	Intended Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>June 30, 2017</u>
<u>Notes Payable -</u>			
<u>Governmental Activities:</u>			
School roof *	2017	0.92	\$ 135,000
Fire department truck *	2020	4.25	<u>79,350</u>
Total Notes Payable - Governmental Activities			<u>\$ 214,350</u>

\* These borrowings are a combination of several short-term notes intended to finance these purchases over a period of time. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year. The interest rate reported is the interest rate for the short-term note issued in fiscal year 2017 and due in fiscal year 2018.

### B. Future Debt Service

The annual payments to retire all general obligation bonds and long-term notes payable outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 311,850	\$ 65,959	\$ 377,809
2019	176,850	58,249	235,099
2020	176,850	52,117	228,967
2021	130,200	45,168	175,368
2022	120,000	39,668	159,668
2023 - 2027	592,500	132,186	724,686
2028 - 2030	<u>317,500</u>	<u>26,028</u>	<u>343,528</u>
Total	<u>\$ 1,825,750</u>	<u>\$ 419,375</u>	<u>\$ 2,245,125</u>

  

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 167,922	\$ 49,930	\$ 217,852
2019	179,453	46,187	225,640
2020	181,070	43,560	224,630
2021	97,776	40,814	138,590
2022	104,574	37,871	142,445
2023 - 2027	273,506	154,630	428,136
2028 - 2032	265,835	92,299	358,134
Thereafter	<u>173,424</u>	<u>21,583</u>	<u>195,007</u>
Total	<u>\$ 1,443,560</u>	<u>\$ 486,874</u>	<u>\$ 1,930,434</u>

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:



	Total Balance July 1, 2016	Additions	Reductions	Total Balance June 30, 2017	Less Current Portion	Long-Term Portion June 30, 2017
<u>Governmental Activities</u>						
Notes payable	\$ 374,800	\$ -	\$ (160,450)	\$ 214,350	\$ (161,450)	\$ 52,900
Bonds payable	1,761,800	-	(150,400)	1,611,400	(150,400)	1,461,000
Net pension liability	6,501,696	203,958	-	6,705,654	-	6,705,654
Net OPEB obligation	2,029,674	264,511	-	2,294,185	-	2,294,185
Other:						
Compensated absences	160,258	-	(5,172)	155,086	-	155,086
Totals	\$ 10,828,228	\$ 468,469	\$ (316,022)	\$ 10,980,675	\$ (311,850)	\$ 10,668,825
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,610,029	\$ -	\$ (166,469)	\$ 1,443,560	\$ (167,922)	\$ 1,275,638
Net pension liability	275,846	-	(121,496)	154,350	-	154,350
Net OPEB obligation	6,301	2,322	-	8,623	-	8,623
Other:						
Landfill liability	108,850	-	(10,885)	97,965	(10,885)	87,080
Compensated absences	5,182	384	-	5,566	-	5,566
Subtotal - other	114,032	384	(10,885)	103,531	(10,885)	92,646
Totals	\$ 2,006,208	\$ 2,706	\$ (298,850)	\$ 1,710,064	\$ (178,807)	\$ 1,531,257

#### D. Overlapping Debt

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
<u>Hampshire Regional School District:</u>			
Hampshire Regional HS	\$ 1,440,000	57.98%	\$ 834,912

#### **14. Landfill Post-Closure Care Costs**

State and Federal laws and regulations require the Town perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$97,965 reported as landfill postclosure care liability at June 30, 2017 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**15. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources, one of which is attributable to changes in the net pension liability, and the other which arises from the *current financial resources measurement focus* and the *modified accrual basis of accounting* in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 18. Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

**16. Interfund Fund Accounts**

**Transfers**

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 241,301	\$ 378,549
Other special revenue funds	20,451	241,301
Nonmajor funds:		
Special revenue funds	13,575	-
Capital project funds	<u>344,523</u>	<u>-</u>
Subtotal Nonmajor funds	<u>358,098</u>	<u>-</u>
Grand Total	<u>\$ 619,850</u>	<u>\$ 619,850</u>

**17. Governmental Funds – Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance

classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds, and the income portion of permanent trust funds.

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. This fund balance classification includes capital projects funded by appropriation, stabilization funds restricted for specific purposes and the balance in the community preservation fund.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods, general stabilization funds and deficit fund balances.

Following is a breakdown of the Town's fund balances at June 30, 2017:

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable					
Nonexpendable					
permanent funds	\$ -	\$ -	\$ -	\$ 365,317	\$ 365,317
Total Nonspendable	-	-	-	365,317	365,317
Restricted					
Special revenue funds	-	-	440,100	399,953	840,053
Expendable permanent funds	-	-	-	164,451	164,451
Total Restricted	-	-	440,100	564,404	1,004,504
Committed					
Stabilization funds for specific purposes*	85,445	-	-	-	85,445
Community preservation fund	-	1,494,665	-	-	1,494,665
Capital projects funded by appropriation	-	-	-	113,826	113,826
Total Committed	85,445	1,494,665	-	113,826	1,693,936
Assigned					
Reserve for encumbrances	59,585	-	-	-	59,585
Total Assigned	59,585	-	-	-	59,585
Unassigned					
General fund	454,727	-	-	-	454,727
General Stabilization fund	312,491	-	-	-	312,491
Deficit fund balances	-	-	(403,737)	-	(403,737)
Total Unassigned	767,218	-	(403,737)	-	363,481
Total Fund Balance	<u>\$ 912,248</u>	<u>\$ 1,494,665</u>	<u>\$ 36,363</u>	<u>\$ 1,043,547</u>	<u>\$ 3,486,823</u>

\* Massachusetts General Law Ch. 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

## **18. Hampshire County Retirement System**

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

### **A. Plan Description**

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampshire Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension

plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 99 Industrial Avenue Northampton, MA 01060.

### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to April 1, 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total

retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

#### Participant Refunds

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

#### Participants Contributions

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

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

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

#### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2017 was \$614,603, which was equal to its annual required contribution.

#### *B. Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At June 30, 2017, the Town reported a liability of approximately \$6.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Town's proportion was 3.12 percent.

For the year ended June 30, 2017, the Town recognized pension expense of \$870,092. In addition, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 109,106
Net difference between projected and actual earnings on pension plan investments	497,757	-
Changes of assumptions	416,734	-
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>-</u>	<u>32,392</u>
Total	<u>\$ 914,491</u>	<u>\$ 141,498</u>

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

Year ended June 30:	
2018	\$ 217,518
2019	217,518
2020	210,231
2021	131,335
2022	<u>(3,609)</u>
Total	<u>\$ 772,993</u>

*D. Actuarial Assumptions*

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.25%
Investment rate of return	7.50%

Mortality rates were based on the RP2000 Table, projected with scale BB with base year of 2009.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2015.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.00%	0.00%
Large Cap Equities	11.00%	4.37%
Small/Mid Cap Equities	6.00%	4.61%
International Equities	13.50%	4.85%
Emerging Equities	7.00%	6.31%
Core Bonds	7.00%	0.86%
High-Yield Bonds	5.00%	2.67%
Global Bonds	3.00%	-0.24%
EMD (Local Currency)	6.00%	3.40%
Bank Loans	4.00%	2.91%
Private Equity	10.00%	6.31%
Private Debt	3.00%	4.85%
Real Estate (Core)	10.00%	3.40%
Hedge Funds	5.00%	3.40%
Global Asset Allocation	7.50%	0.00%
Total	<u>100.00%</u>	



*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
June 30, 2017	\$8,513	\$6,860	\$5,605

*G. Pension Plan Fiduciary Net Position*

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

**19. Massachusetts Teachers' Retirement System (MTRS)**

*A. Plan Description*

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is

part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members — two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

#### *B. Benefits Provided*

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

#### *C. Contributions*

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

#### D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
  - Pre-retirement – reflects RP-2014 Employee table projected generationally with Scale BB and a base year of 2014 (gender distinct).
  - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target

asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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.

**F. Sensitivity Analysis**

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2016	\$27,464,000	\$22,357,928	\$18,022,000

**G. Special Funding Situation**

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68,

Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

#### H. Town Proportions

In fiscal year 2016 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$10,345,418 and \$1,055,301 respectively, based on a proportionate share of 0.05%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

### **20. Other Post-Employment Benefits – OPEB (GASB 45)**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the statement of net position over time.

#### A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of June 30, 2016, the actuarial valuation date, approximately 71 retirees and 114 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

#### B. Benefits Provided

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

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

	Governmental <u>Activities</u>	Water <u>Fund</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$ 517,532	\$ 4,543	\$ 522,075
Interest on net OPEB obligation	80,730	709	81,439
Amortization of NOO	<u>(67,275)</u>	<u>(591)</u>	<u>(67,866)</u>
Annual OPEB cost	530,987	4,661	535,648
Contributions made	<u>(266,476)</u>	<u>(2,339)</u>	<u>(268,815)</u>
Increase in net OPEB obligation	264,511	2,322	266,833
Net OPEB obligation - beginning of year	<u>2,029,674</u>	<u>6,301</u>	<u>2,035,975</u>
Net OPEB obligation - end of year	<u>\$ 2,294,185</u>	<u>\$ 8,623</u>	<u>\$ 2,302,808</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$535,648	50.2%	\$2,302,808
2016	\$511,664	57.6%	\$2,035,975
2015	\$811,858	29.8%	\$1,741,124
2014	\$766,632	23.2%	\$1,171,417
2013	\$723,353	19.5%	\$582,616

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 7,918,957
Actuarial value of plan assets	<u>75,529</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,843,428</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.96%</u>
Covered payroll (active plan members)	<u>\$ 5,540,362</u>
UAAL as a percentage of covered payroll	<u>141.6%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and 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.

In the June 30, 2016 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town had not advance funded its obligation at that time. The actuarial assumptions include a 4% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after three years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

**21. Other Post-Employment Benefits – OPEB (GASB 74)**

In May 2013 the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments totaled \$131,212 and consisted of corporate equities and mutual funds. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 7,529,083
Plan fiduciary net position	<u>(131,656)</u>
Net OPEB liability	<u>\$ 7,397,427</u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.75%

**A. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4 percent
Salary increases	unavailable
Investment rate of return	unavailable

Mortality rates were based on the RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational.

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 are summarized in the following table:



<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	34.16%	7.05%
Domestic bonds	21.76%	4.47%
Alternatives	19.37%	6.80%
International equity	18.95%	7.80%
International bonds	5.42%	4.40%
Cash and equivalents	0.34%	n/a
Total	<u>100.00%</u>	

**B. Discount Rate**

The discount rate used to measure the total OPEB liability was 4.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

**C. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current discount rate:

	1% Decrease <u>(3.0%)</u>	Discount Rate <u>(4.0%)</u>	1% Increase <u>(5.0%)</u>
Net OPEB liability	\$8,686,925	\$7,397,427	\$6,366,750

**D. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.0 percent) or 1-percentage-point higher (7.0 percent) than the current healthcare cost trend rates:

	1% Decrease <u>(5.0%)</u>	Healthcare Cost Trend Rates <u>(6.0%)</u>	1% Increase <u>(7.0%)</u>
Net OPEB liability	\$7,347,836	\$7,397,427	\$7,433,721

## **22. Commitments and Contingencies**

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

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

Self-Insurance - The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2017 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$275,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2017, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.4 million, the Trust was in a surplus position of approximately \$18.7 million.

## **23. Implementation of New GASB Standard**

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have a material impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the governmental-wide financial statements.

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts express in thousands)

**Hampshire County Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	3.12%	\$6,860	\$2,361	290.55%	55.61%
June 30, 2016	December 31, 2015	3.26%	\$6,778	\$2,766	245.05%	55.29%
June 30, 2015	December 31, 2014	3.28%	\$6,128	\$2,638	232.30%	58.07%

**Massachusetts Teachers' Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.05%	-	\$10,345	\$10,345	\$3,044	-	52.73%
June 30, 2016	June 30, 2015	0.04%	-	\$9,208	\$9,208	\$2,849	-	55.38%
June 30, 2015	June 30, 2014	0.05%	-	\$7,700	\$7,700	\$2,970	-	61.64%

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

**Hampshire County Retirement System**

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Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2017	\$ 615	\$ 615	-	\$ 2,361	26.05%
June 30, 2016	\$ 608	\$ 608	-	\$ 2,766	21.98%
June 30, 2015	\$ 573	\$ 573	-	\$ 2,638	21.72%

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
 SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percent- age of Covered Payroll [(b-a)/c]
06/30/16	\$76	\$7,919	\$7,843	0.97%	\$5,540	141.6%
06/30/13	-	\$9,217	\$9,217	0.00%	\$5,371	171.6%

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74)

(Unaudited)

(Amounts expressed in thousands)

	<u>2017</u>
<b>Total OPEB liability</b>	
Service cost	\$ 259
Interest on unfunded liability - time value of \$	294
Benefit payments, including refunds of member contributions	<u>(217)</u>
Net change in total OPEB liability	336
Total OPEB liability - beginning	<u>7,193</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 7,529</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 245
Net investment income	7
Benefit payments, including refunds of member contributions	<u>(195)</u>
Net change in plan fiduciary net position	57
Plan fiduciary net position - beginning	<u>75</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 132</u></u>
<b>Net OPEB liability (asset) - ending (a-b)</b>	<u><u>\$ 7,397</u></u>

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

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,  
AND INVESTMENT RETURNS (GASB 74)

(Unaudited)

(Amounts expressed in thousands)

<b>Schedule of Net OPEB Liability</b>	<u>2017</u>
Total OPEB liability	\$ 7,529
Plan fiduciary net position	<u>(132)</u>
Net OPEB liability (asset)	<u>\$ 7,397</u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.75%
Covered payroll	\$ 5,734
Participating employer net OPEB liability (asset) as a percentage of covered payroll	129.00%
<b>Schedule of Contributions</b>	<u>2017</u>
Actuarially determined contribution	\$ 549
Contributions in relation to the actuarially determined contribution	<u>(245)</u>
Contribution deficiency (excess)	<u>\$ 304</u>
Covered payroll	\$ 5,734
Contributions as a percentage of covered payroll	4.27%
<b>Schedule of Investment Returns</b>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	unavailable

*Schedules are intended to show information for 10 years.  
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See Independent Auditors' Report.