

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Southamptn, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southamptn, Massachusetts, as of and for the year ended June 30, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Southamptton, Massachusetts, as of June 30, 2018, 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 58 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019 on our consideration of the Town's internal control over

financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

March 14, 2019

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, 2018.

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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water and transfer station activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into 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 \$12,018,294 (i.e., net position), a change of \$603,553 in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,634,540, a change of \$147,717 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$697,341, a change of \$(69,877) 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.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 5,274,890	\$ 5,905,393	\$ 1,018,892	\$ 803,208	\$ 6,293,782	\$ 6,708,601
Capital assets	13,332,283	13,189,652	10,473,499	10,448,465	23,805,782	23,638,117
Total assets	18,607,173	19,095,045	11,492,391	11,251,673	30,099,564	30,346,718
Deferred outflows of resources	1,183,878	893,915	16,679	20,576	1,200,557	914,491
Current liabilities	1,368,437	1,877,456	379,649	42,351	1,748,086	1,919,807
Non-current liabilities	13,202,801	10,980,675	1,378,204	1,710,064	14,581,005	12,690,739
Total liabilities	14,571,238	12,858,131	1,757,853	1,752,415	16,329,091	14,610,546
Deferred inflows of resources	2,912,093	138,314	40,643	3,184	2,952,736	141,498
Net position:						
Net investment in capital assets	11,709,680	11,614,128	9,147,695	9,343,205	20,857,375	20,957,333
Restricted	3,164,485	2,592,846	-	-	3,164,485	2,592,846
Unrestricted	(12,566,445)	(7,214,459)	562,879	173,445	(12,003,566)	(7,041,014)
Total net position	\$ 2,307,720	\$ 6,992,515	\$ 9,710,574	\$ 9,516,650	\$ 12,018,294	\$ 16,509,165

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 \$12,018,294, a change of \$603,553 in comparison with the restated prior year.

The largest portion of net position, \$20,857,375, 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, \$3,164,485, 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 \$(12,566,445) (governmental) and a surplus of \$562,879 (business-type).

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 987,918	\$ 803,641	\$ 952,994	\$ 1,015,380	\$ 1,940,912	\$ 1,819,021
Operating grants and contributions	5,057,885	4,869,387	-	-	5,057,885	4,869,387
Capital grants and contributions	566,822	468,151	-	-	566,822	468,151
General revenues:						
Property taxes	11,684,666	11,298,684	-	-	11,684,666	11,298,684
Excises	1,022,243	974,522	-	-	1,022,243	974,522
Penalties, interest and other taxes	220,223	210,696	-	-	220,223	210,696
Grants and contributions not restricted to specific programs	652,216	628,354	-	-	652,216	628,354
Investment income	19,945	15,372	1,418	1,374	21,363	16,746
Miscellaneous	47,992	43,673	58,339	98,075	106,331	141,748
Total revenues	<u>20,259,910</u>	<u>19,312,480</u>	<u>1,012,751</u>	<u>1,114,829</u>	<u>21,272,661</u>	<u>20,427,309</u>
Expenses:						
General government	1,033,880	983,742	-	-	1,033,880	983,742
Public safety	2,847,656	2,652,025	-	-	2,847,656	2,652,025
Education	13,631,395	13,878,529	-	-	13,631,395	13,878,529
Public works	1,758,300	1,693,069	-	-	1,758,300	1,693,069
Health and human services	192,695	200,252	-	-	192,695	200,252
Culture and recreation	281,647	288,303	-	-	281,647	288,303
Interest on long-term debt	70,038	78,239	-	-	70,038	78,239
Intergovernmental	90,411	12,520	-	-	90,411	12,520
Water	-	-	601,157	567,008	601,157	567,008
Transfer station	-	-	161,929	140,898	161,929	140,898
Total expenses	<u>19,906,022</u>	<u>19,786,679</u>	<u>763,086</u>	<u>707,906</u>	<u>20,669,108</u>	<u>20,494,585</u>
Change in net position	353,888	(474,199)	249,665	406,923	603,553	(67,276)
Net position - beginning of year, as restated	<u>1,953,832</u>	<u>7,466,714</u>	<u>9,460,909</u>	<u>9,109,727</u>	<u>11,414,741</u>	<u>16,576,441</u>
Net position - end of year	<u>\$ 2,307,720</u>	<u>\$ 6,992,515</u>	<u>\$ 9,710,574</u>	<u>\$ 9,516,650</u>	<u>\$ 12,018,294</u>	<u>\$ 16,509,165</u>

Fiscal year 2017 amounts reported above were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$353,888. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (102,996)
Major fund - Community preservation fund revenues in excess of expenditures	197,490
Major fund - Other special revenue funds revenues and transfers in in excess of expenditures and transfers out	425,577
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(372,354)
Depreciation expense in excess of principal debt service	(140,377)
Capital assets purchases from grant and general resources	609,599
Change in net pension liability, net of deferrals	(216,020)
Change in net OPEB liability, net of deferrals	69,867
Other timing differences	<u>(116,898)</u>
Total	<u>\$ 353,888</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$249,665. Key elements of this change are as follows:

Water operations	\$ 200,344
Transfer station operations	<u>49,321</u>
Change in net position	<u>\$ 249,665</u>

D. FINANCIAL ANALYSIS OF 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 \$3,634,540, a change of \$147,717 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed below	\$ (102,996)
Major fund - Community preservation fund revenues in excess of expenditures	197,490
Major fund - Other special revenue funds revenues and transfers in in excess of expenditures and transfers out	425,577
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(372,354)</u>
Total	<u>\$ 147,717</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 \$697,341, while total fund balance was \$809,252. 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>2018</u>	<u>2017</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned fund balance	\$ 697,341	\$ 767,218	\$ (69,877)	4.1%
Total fund balance	\$ 809,252	\$ 912,248	\$ (102,996)	4.8%

The total fund balance of the general fund changed by \$(102,996) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 35,375
State and local revenues over budget	213,845
Budgetary appropriations unspent by departments	36,064
Use of free cash as a funding source for nonrecurring expenses	(416,356)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(41,989)
Change in Stabilization funds	<u>70,065</u>
Total	<u>\$ (102,996)</u>

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

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
Ambulance stabilization fund	\$ 76,770	\$ 75,915	\$ 855
Capital stabilization fund	17,545	9,530	8,015
Operating stabilization fund	<u>373,686</u>	<u>312,491</u>	<u>61,195</u>
Total	<u>\$ 468,001</u>	<u>\$ 397,936</u>	<u>\$ 70,065</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 \$562,879, a change of \$445,175 in comparison to the restated 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 \$484,910. Major reasons for these amendments include:

Transfers to:	
Capital project fund	\$ 29,720
Capital stabilization fund	148,247
Operating stabilization fund	127,068
Special revenue funds	55,600
Contribution to OPEB trust fund	42,356
Increase in general government budget	11,000
Increase in public safety budget	<u>70,919</u>
Total	<u>\$ 484,910</u>

Of this increase, \$416,356 was funded by free cash and \$68,554 was funded by a transfer from the ambulance special revenue 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 \$23,805,782 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and machinery and equipment, and infrastructure.

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

Depreciation expense - governmental activities	\$ (452,227)
Depreciation expense - business-type activities	(178,917)
Infrastructure	
Water system improvements	205,833
Building and improvements	
Norris School Boiler	49,796
Departmental vehicles and equipment	
Public safety	517,803
Land	
College Highway	11,800
Brickyard Extension	30,200
Disposals	(16,623)

Long-term debt. At the end of the current fiscal year, total long-term debt outstanding was \$2,789,538, 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, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 2,993,872	\$ 923,495	\$ 3,917,367
Investments	1,686,414	-	1,686,414
Receivables, net of allowance for uncollectibles:			
Property taxes	126,658	-	126,658
Excises	78,227	-	78,227
User fees	48,249	95,397	143,646
Departmental and other	66,820	-	66,820
Intergovernmental	53,382	-	53,382
Loans	9,340	-	9,340
Noncurrent:			
Property taxes	158,645	-	158,645
Loans	53,283	-	53,283
Land and construction in progress	8,254,315	548,500	8,802,815
Capital assets, net of accumulated depreciation	5,077,968	9,924,999	15,002,967
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	311,832	7,439	319,271
Related to OPEB	872,046	9,240	881,286
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	19,791,051	11,509,070	31,300,121
LIABILITIES			
Current:			
Warrants payable	262,780	11,756	274,536
Accounts payable	16,935	-	16,935
Accrued payroll	441,879	-	441,879
Accrued interest payable	-	25,711	25,711
Notes payable	469,993	151,844	621,837
Current portion of long-term liabilities:			
Notes payable	26,450	-	26,450
Bonds payable	150,400	179,453	329,853
Other	-	10,885	10,885
Noncurrent:			
Notes payable, net of current portion	26,450	-	26,450
Bonds payable, net of current portion	1,310,600	1,096,185	2,406,785
Net pension liability	5,739,827	136,929	5,876,756
Net OPEB liability	5,961,032	63,163	6,024,195
Other, net of current portion	164,892	81,927	246,819
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	738,078	17,607	755,685
Related to OPEB	2,174,015	23,036	2,197,051
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	17,483,331	1,798,496	19,281,827
NET POSITION			
Net investment in capital assets	11,709,680	9,147,695	20,857,375
Restricted for:			
Grants and other statutory restrictions	2,640,274	-	2,640,274
Permanent funds:			
Nonexpendable	365,317	-	365,317
Expendable	158,894	-	158,894
Unrestricted	<u>(12,566,445)</u>	<u>562,879</u>	<u>(12,003,566)</u>
TOTAL NET POSITION	\$ <u>2,307,720</u>	\$ <u>9,710,574</u>	\$ <u>12,018,294</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<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>
Governmental Activities:							
General government	\$ 1,033,880	\$ 141,943	\$ 239,331	\$ -	\$ (652,606)	\$ -	\$ (652,606)
Public safety	2,847,656	726,650	26,179	-	(2,094,827)	-	(2,094,827)
Education	13,631,395	108,316	4,320,359	-	(9,202,720)	-	(9,202,720)
Public works	1,758,300	5,220	350,680	566,822	(835,578)	-	(835,578)
Health and human services	192,695	4,533	90,377	-	(97,785)	-	(97,785)
Culture and recreation	281,647	1,256	30,959	-	(249,432)	-	(249,432)
Interest	70,038	-	-	-	(70,038)	-	(70,038)
Intergovernmental	90,411	-	-	-	(90,411)	-	(90,411)
Total Governmental Activities	<u>19,906,022</u>	<u>987,918</u>	<u>5,057,885</u>	<u>566,822</u>	<u>(13,293,397)</u>	<u>-</u>	<u>(13,293,397)</u>
Business-Type Activities:							
Water services	601,157	749,041	-	-	-	147,884	147,884
Transfer station services	161,929	203,953	-	-	-	42,024	42,024
Total Business-Type Activities	<u>763,086</u>	<u>952,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,908</u>	<u>189,908</u>
Total	<u>\$ 20,669,108</u>	<u>\$ 1,940,912</u>	<u>\$ 5,057,885</u>	<u>\$ 566,822</u>	<u>(13,293,397)</u>	<u>189,908</u>	<u>(13,103,489)</u>
General Revenues:							
					11,684,666	-	11,684,666
					1,022,243	-	1,022,243
					220,223	-	220,223
					652,216	-	652,216
					19,945	1,418	21,363
					47,992	58,339	106,331
Total general revenues					<u>13,647,285</u>	<u>59,757</u>	<u>13,707,042</u>
Change in net position					353,888	249,665	603,553
Net Position:							
Beginning of year, as restated					<u>1,953,832</u>	<u>9,460,909</u>	<u>11,414,741</u>
End of year					<u>\$ 2,307,720</u>	<u>\$ 9,710,574</u>	<u>\$ 12,018,294</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 1,347,713	\$ 597,827	\$ 628,875	\$ 419,457	\$ 2,993,872
Investments	75,106	1,094,327	-	516,981	1,686,414
Receivables:					
Property taxes	123,036	3,622	-	-	126,658
Tax liens	158,645	-	-	-	158,645
Excises	78,227	-	-	-	78,227
User fees, net of allowance for uncollectibles	-	-	48,249	-	48,249
Departmental and other	-	-	-	66,820	66,820
Intergovernmental	-	-	-	53,382	53,382
Loans	-	-	62,623	-	62,623
TOTAL ASSETS	\$ 1,782,727	\$ 1,695,776	\$ 739,747	\$ 1,056,640	\$ 5,274,890
LIABILITIES					
Warrants payable	\$ 229,156	\$ -	\$ -	\$ 33,624	\$ 262,780
Accounts payable	-	-	16,935	-	16,935
Accrued payroll	410,049	-	-	31,830	441,879
Notes payable	-	-	150,000	319,993	469,993
TOTAL LIABILITIES	639,205	-	166,935	385,447	1,191,587
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	334,270	3,621	110,872	-	448,763
FUND BALANCES					
Nonspendable	-	-	-	365,317	365,317
Restricted	-	-	461,940	530,579	992,519
Committed	94,315	1,692,155	-	-	1,786,470
Assigned	17,596	-	-	-	17,596
Unassigned	697,341	-	-	(224,703)	472,638
TOTAL FUND BALANCES	809,252	1,692,155	461,940	671,193	3,634,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,782,727	\$ 1,695,776	\$ 739,747	\$ 1,056,640	\$ 5,274,890

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, 2018

Total Governmental Fund Balances	\$ 3,634,540
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	13,332,283
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles) and are not deferred until collection.	448,763
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.	(14,942,974)
<ul style="list-style-type: none">• Other	<u>(164,892)</u>
Net Position of Governmental Activities	<u>\$ 2,307,720</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, 2018

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 11,503,331	\$ 213,493	\$ -	\$ 2,606	\$ 11,719,430
Excises	1,061,875	-	-	-	1,061,875
Penalties, interest and other taxes	204,187	16,036	-	-	220,223
Charges for services	80,483	-	212,498	418,196	711,177
Intergovernmental	3,828,362	108,782	566,019	1,279,520	5,782,683
Licenses and permits	252,037	-	-	-	252,037
Fines and forfeitures	13,608	-	-	-	13,608
Investment income	13,439	-	-	6,506	19,945
Miscellaneous	31,199	-	1,335	-	32,534
	<u>16,988,521</u>	<u>338,311</u>	<u>779,852</u>	<u>1,706,828</u>	<u>19,813,512</u>
Total Revenues					
Expenditures:					
Current:					
General government	584,873	61,926	93,757	36,301	776,857
Public safety	1,791,575	-	44,384	794,751	2,630,710
Education	10,860,891	63,358	3,000	886,098	11,813,347
Public works	896,331	15,537	21,662	546,964	1,480,494
Health and human services	113,293	-	14,649	27,382	155,324
Culture and recreation	159,267	-	13,468	24,666	197,401
Employee benefits	2,139,363	-	-	-	2,139,363
Debt service	381,888	-	-	-	381,888
Intergovernmental	90,411	-	-	-	90,411
	<u>17,017,892</u>	<u>140,821</u>	<u>190,920</u>	<u>2,316,162</u>	<u>19,665,795</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	(29,371)	197,490	588,932	(609,334)	147,717
Other Financing Sources (Uses):					
Transfers in	232,218	-	65,600	244,492	542,310
Transfers out	(305,843)	-	(228,955)	(7,512)	(542,310)
	<u>(73,625)</u>	<u>-</u>	<u>(163,355)</u>	<u>236,980</u>	<u>-</u>
Total Other Financing Sources (Uses)					
Change in fund balance	(102,996)	197,490	425,577	(372,354)	147,717
Fund Balance at Beginning of Year	912,248	1,494,665	36,363	1,043,547	3,486,823
Fund Balance at End of Year	<u>\$ 809,252</u>	<u>\$ 1,692,155</u>	<u>\$ 461,940</u>	<u>\$ 671,193</u>	<u>\$ 3,634,540</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, 2018

Net Changes in Fund Balances - Total Governmental Funds	\$ 147,717																
<ul style="list-style-type: none"> • 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 style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Capital asset purchases</td> <td style="text-align: right;">609,599</td> </tr> <tr> <td>Loss on disposal of assets</td> <td style="text-align: right;">(14,742)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(452,227)</td> </tr> </table> • 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 style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">311,850</td> </tr> </table> • 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 style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(92,350)</td> </tr> </table> • Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(216,020)</td> </tr> <tr> <td>Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">69,867</td> </tr> </table> • Other <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u>(9,806)</u></td> </tr> </table> 	Capital asset purchases	609,599	Loss on disposal of assets	(14,742)	Depreciation	(452,227)	Repayments of debt	311,850		(92,350)	Net pension liability and related deferred outflows and inflows of resources	(216,020)	Net OPEB liability and related deferred outflows and inflows of resources	69,867		<u>(9,806)</u>	
Capital asset purchases	609,599																
Loss on disposal of assets	(14,742)																
Depreciation	(452,227)																
Repayments of debt	311,850																
	(92,350)																
Net pension liability and related deferred outflows and inflows of resources	(216,020)																
Net OPEB liability and related deferred outflows and inflows of resources	69,867																
	<u>(9,806)</u>																
Change in Net Position of Governmental Activities	\$ <u>353,888</u>																

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 11,467,956	\$ 11,467,956	\$ 11,467,956	\$ -
Excises	905,000	905,000	1,061,875	156,875
Penalties, interest and other taxes	196,000	196,000	204,187	8,187
Charges for services	90,533	90,533	80,483	(10,050)
Intergovernmental	3,262,510	3,262,510	3,267,670	5,160
Licenses and permits	235,100	235,100	252,037	16,937
Fines and forfeitures	14,000	14,000	13,608	(392)
Investment income	5,500	5,500	10,245	4,745
Miscellaneous	-	-	31,199	31,199
Transfers in	160,401	228,955	230,139	1,184
Total Revenues and Transfers In	16,337,000	16,405,554	16,619,399	213,845
Expenditures and Transfers Out:				
General government	567,165	576,410	570,823	5,587
Public safety	1,729,717	1,800,636	1,785,354	15,282
Education	10,277,420	10,277,420	10,292,386	(14,966)
Public works	904,863	904,863	883,263	21,600
Health and human services	112,563	114,048	113,235	813
Culture and recreation	161,898	161,898	159,065	2,833
Employee benefits	2,104,016	2,146,642	2,138,786	7,856
Debt service	382,591	382,591	381,888	703
Intergovernmental	86,767	86,767	90,411	(3,644)
Transfers out	10,000	370,635	370,635	-
Total Expenditures and Transfers Out	16,337,000	16,821,910	16,785,846	36,064
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(416,356)	(166,447)	249,909
Other Financing Sources/Uses:				
Use of free cash:				
Operating budget	-	13,365	-	(13,365)
Transfer to Capital project funds	-	29,720	-	(29,720)
Transfer to Special revenue funds	-	55,600	-	(55,600)
Transfer to Stabilization funds	-	275,315	-	(275,315)
Contribution to OPEB trust fund	-	42,356	-	(42,356)
Total Other Financing Sources/Uses	-	416,356	-	(416,356)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (166,447)	\$ (166,447)

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 894,009	\$ 29,486	\$ 923,495
User fees, net of allowance for uncollectibles	95,397	-	95,397
Total current assets	989,406	29,486	1,018,892
Noncurrent:			
Land	368,900	179,600	548,500
Capital assets, net of accumulated depreciation	9,917,911	7,088	9,924,999
Total noncurrent assets	10,286,811	186,688	10,473,499
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	5,843	1,596	7,439
Related to OPEB	9,240	-	9,240
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	11,291,300	217,770	11,509,070
LIABILITIES			
Current:			
Warrants payable	11,756	-	11,756
Accrued interest payable	25,711	-	25,711
Notes payable	151,844	-	151,844
Current portion of long-term liabilities:			
Bonds payable	159,453	20,000	179,453
Other	-	10,885	10,885
Total current liabilities	348,764	30,885	379,649
Noncurrent:			
Bonds payable, net of current portion	1,076,185	20,000	1,096,185
Net pension liability	107,545	29,384	136,929
Net OPEB liability	63,163	-	63,163
Other, net of current portion	5,732	76,195	81,927
Total noncurrent liabilities	1,252,625	125,579	1,378,204
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	13,829	3,778	17,607
Related to OPEB	23,036	-	23,036
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,638,254	160,242	1,798,496
NET POSITION			
Net investment in capital assets	8,961,007	186,688	9,147,695
Unrestricted	692,039	(129,160)	562,879
TOTAL NET POSITION	\$ 9,653,046	\$ 57,528	\$ 9,710,574

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, 2018

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 730,641	\$ 203,953	\$ 934,594
Other	18,400	-	18,400
Total Operating Revenues	749,041	203,953	952,994
Operating Expenses:			
Salaries and benefits	141,181	35,114	176,295
Other operating expenses	215,499	123,876	339,375
Depreciation	178,416	501	178,917
Total Operating Expenses	535,096	159,491	694,587
Operating Income	213,945	44,462	258,407
Nonoperating Revenues (Expenses):			
Intergovernmental revenue	51,042	7,297	58,339
Investment income	1,418	-	1,418
Interest expense	(66,061)	(2,438)	(68,499)
Total Nonoperating Revenues (Expenses), Net	(13,601)	4,859	(8,742)
Change in Net Position	200,344	49,321	249,665
Net Position at Beginning of Year, as restated	9,452,702	8,207	9,460,909
Net Position at End of Year	\$ 9,653,046	\$ 57,528	\$ 9,710,574

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, 2018

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 744,496	\$ 203,953	\$ 948,449
Payments to vendors and employees	(330,156)	(176,858)	(507,014)
Net Cash Provided By Operating Activities	414,340	27,095	441,435
<u>Cash Flows From Noncapital Financing Activities:</u>			
Intergovernmental receipt	51,042	7,297	58,339
Net Cash Provided By Noncapital Financing Activities	51,042	7,297	58,339
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(203,951)	-	(203,951)
Issuance of bond anticipation notes	151,844	-	151,844
Principal payments on bonds and notes	(147,922)	(20,000)	(167,922)
Interest expense	(67,586)	(2,438)	(70,024)
Net Cash (Used For) Capital and Related Financing Activities	(267,615)	(22,438)	(290,053)
<u>Cash Flows From Investing Activities:</u>			
Investment income	1,418	-	1,418
Net Cash Provided By Investing Activities	1,418	-	1,418
Net Change in Cash and Short-Term Investments	199,185	11,954	211,139
Cash and Short Term Investments, Beginning of Year	694,824	17,532	712,356
Cash and Short Term Investments, End of Year	\$ 894,009	\$ 29,486	\$ 923,495
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating income	\$ 213,945	\$ 44,462	\$ 258,407
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	178,416	501	178,917
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	(4,545)	-	(4,545)
Deferred outflows - related to pensions	10,343	2,794	13,137
Deferred outflows - related to OPEB	(9,240)	-	(9,240)
Warrants payable and accrued liabilities	6,138	(9,331)	(3,193)
Landfill liability	-	(10,885)	(10,885)
Net pension liability	(13,877)	(3,544)	(17,421)
Net OPEB liability	(1,201)	-	(1,201)
Deferred inflows - related to pensions	11,325	3,098	14,423
Deferred inflows - related to OPEB	23,036	-	23,036
Net Cash Provided By Operating Activities	\$ 414,340	\$ 27,095	\$ 441,435

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Cash and short-term investments	\$ 649	\$ 16,626
Investments in:		
Certificates of deposit	-	26,886
Corporate bonds	-	32,037
Corporate equities	122,459	14,270
Mutual funds	58,661	-
US Treasury notes/bonds	<u>-</u>	<u>60,846</u>
Total Assets	181,769	150,665
LIABILITIES		
Other liabilities	<u>-</u>	<u>150,665</u>
Total Liabilities	<u>-</u>	<u>150,665</u>
NET POSITION		
Net position restricted for OPEB	<u>\$ 181,769</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, 2018

	Other Post- Employment Benefits <u>Trust Fund</u>
Additions:	
Contributions	\$ 244,827
Interest income	<u>7,757</u>
Total additions	252,584
Deductions:	
Benefit payments to plan members and beneficiaries	<u>202,471</u>
Net increase	50,113
Net position restricted for OPEB :	
Beginning of year	<u>131,656</u>
End of year	<u>\$ 181,769</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 2018, 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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension 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, PEG programming, and the septic betterment/loan funds.

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 2018 tax levy reflected an excess capacity of \$4,007.

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)	\$ 16,988,521	\$ 17,017,892
Other financing sources/uses (GAAP basis)	<u>232,218</u>	<u>305,843</u>
Subtotal (GAAP basis)	17,220,739	17,323,735
Remove the effect of adding the Town's Stabilization funds per GASB 54	(5,273)	64,792
Adjust tax revenue to accrual basis	(35,375)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(59,585)
Add end of year appropriation carryforwards to expenditures	-	17,596
Reverse the effect on non-budgeted State contributions for teachers retirement	<u>(560,692)</u>	<u>(560,692)</u>
Budgetary basis	<u>\$ 16,619,399</u>	<u>\$ 16,785,846</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Education	\$(14,966)
Intergovernmental	(3,644)

E. Deficit Fund Equity

The Town's capital project fund reflected a deficit balance of \$(224,703) as of June 30, 2018. It is anticipated that the deficit in this fund will be eliminated through bond proceeds.

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 adopted an investment policy specific to the OPEB trust fund investments in March 2018. The Town's policy on custodial credit risk is to review the financial institution's financial statements to limit the Town's exposure to only those institutions

with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian.

As of June 30, 2018, \$85 of the Town's bank balance of \$4,624,390 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). As noted in the investment policy specific to the OPEB trust fund investments adopted by the Town in March 2018, in regards to fixed-income investments, the Town will only purchase investment grade securities. There is no limit on the amount of US Treasury and U.S. government agency obligations.

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	A2	A3	Baa1	Baa2
Certificates of deposit	\$ 359,810	\$ 359,810	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	455,359	-	-	77,526	87,039	192,261	98,533
Corporate equities	313,434	313,434	-	-	-	-	-
Mutual funds	58,661	58,661	-	-	-	-	-
US Treasury notes/ bonds	814,309	-	814,309	-	-	-	-
Total	<u>\$ 2,001,573</u>	<u>\$ 731,905</u>	<u>\$ 814,309</u>	<u>\$ 77,526</u>	<u>\$ 87,039</u>	<u>\$ 192,261</u>	<u>\$ 98,533</u>

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. Per the Town's investment policy specific to the OPEB trust fund investments adopted in March 2018, the Town's policy on custodial credit risk is to review the financial institution's financial statements to limit the Town's

exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian.

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

Per the Town's investment policy specific to the OPEB trust fund investments adopted in March 2018, the Town will minimize concentration of credit risk by diversifying the investment portfolio. Securities of a single corporate issuer, with the exception of the U.S. government and its agencies, will not exceed 5% of the portfolio value. 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. Per the Town's investment policy specific to the OPEB trust fund investments adopted in March 2018, the Town will manage interest rate risk by managing duration, as a measure of interest rate sensitivity.

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>
Certificates of deposit	\$ 359,810	\$ -	\$ 269,091	\$ 90,719
Corporate bonds	455,359	-	75,786	379,573
Corporate equities	313,434	313,434	-	-
Mutual funds	58,661	58,661	-	-
US Treasury notes/ bonds	814,309	-	202,068	612,241
Total	<u>\$ 2,001,573</u>	<u>\$ 372,095</u>	<u>\$ 546,945</u>	<u>\$ 1,082,533</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. Per the Town's investment policy specific to the OPEB trust fund investments adopted in March 2018, there are no policies specific to foreign currency risk.

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, 2018:

<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	\$ 455,359	\$ -	\$ 455,359	\$ -
U.S. Treasury notes/bonds	814,309	-	814,309	-
Corporate equities	313,434	313,434	-	-
Mutual funds	58,661	58,661	-	-
Total	\$ <u>1,641,763</u>	\$ <u>372,095</u>	\$ <u>1,269,668</u>	\$ <u>-</u>

5. Property 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.

Property taxes and excises receivable at June 30, 2018 consist of the following:

	<u>Total</u>
Real estate taxes	\$ 117,043
Personal property taxes	5,993
Community preservation act	3,622
Tax liens	<u>158,645</u>
Total property taxes	285,303
Less current portion:	<u>(126,658)</u>
Noncurrent taxes receivable	<u>\$ 158,645</u>
Motor vehicle excise	77,428
Other excise	<u>799</u>
Total excises	<u>\$ 78,227</u>

6. User Fee Receivables

Receivables for user charges at June 30, 2018 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Governmental Activities:</u>			
Ambulance	\$ <u>119,907</u>	\$ <u>(71,658)</u>	\$ <u>48,249</u>
<u>Business-Type Activities:</u>			
Water charges	104,280	(10,282)	93,998
Water liens/tax title	<u>1,999</u>	<u>(600)</u>	<u>1,399</u>
Total business-type	<u>\$ 106,279</u>	<u>\$ (10,882)</u>	<u>\$ 95,397</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

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, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 27,622,761	\$ 49,796	\$ -	\$ 27,672,557
Machinery, equipment and furnishings	3,411,664	517,803	(177,409)	3,752,058
Infrastructure	67,699	-	-	67,699
Total capital assets, being depreciated	31,102,124	567,599	(177,409)	31,492,314
Less accumulated depreciation for:				
Buildings and improvements	(23,422,041)	(207,505)	-	(23,629,546)
Machinery, equipment and furnishings	(2,695,976)	(241,337)	162,668	(2,774,645)
Infrastructure	(6,770)	(3,385)	-	(10,155)
Total accumulated depreciation	(26,124,787)	(452,227)	162,668	(26,414,346)
Total capital assets, being depreciated, net	4,977,337	115,372	(14,741)	5,077,968
Capital assets, not being depreciated:				
Land	8,192,600	42,000	-	8,234,600
Construction in progress (CIP)	19,715	-	-	19,715
Total capital assets, not being depreciated	8,212,315	42,000	-	8,254,315
Governmental activities capital assets, net	<u>\$ 13,189,652</u>	<u>\$ 157,372</u>	<u>\$ (14,741)</u>	<u>\$ 13,332,283</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,341,348	\$ -	\$ -	\$ 1,341,348
Machinery, equipment and furnishings	123,166	-	-	123,166
Infrastructure	12,247,977	205,833	(12,544)	12,441,266
Total capital assets, being depreciated	13,712,491	205,833	(12,544)	13,905,780
Less accumulated depreciation for:				
Buildings and improvements	(1,130,771)	(36,397)	-	(1,167,168)
Machinery, equipment, and furnishings	(49,639)	(18,107)	-	(67,746)
Infrastructure	(2,632,116)	(124,413)	10,662	(2,745,867)
Total accumulated depreciation	(3,812,526)	(178,917)	10,662	(3,980,781)
Total capital assets, being depreciated, net	9,899,965	26,916	(1,882)	9,924,999
Capital assets, not being depreciated:				
Land	548,500	-	-	548,500
Total capital assets, not being depreciated	548,500	-	-	548,500
Business-type activities capital assets, net	<u>\$ 10,448,465</u>	<u>\$ 26,916</u>	<u>\$ (1,882)</u>	<u>\$ 10,473,499</u>

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

Governmental Activities:	
General government	\$ 117,953
Public safety	137,853
Education	47,790
Public works	101,438
Health and human services	5,431
Culture and recreation	<u>41,762</u>
Total depreciation expense - governmental activities	<u>\$ 452,227</u>
Business-Type Activities:	
Water	\$ 178,416
Transfer Station	<u>501</u>
Total depreciation expense - business-type activities	<u>\$ 178,917</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 and OPEB in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

11. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

12. Notes Payable

The Town had the following notes outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2018</u>
MCWT septic program note	0.00%	05/21/15	n/a *	\$ 150,000
Bond anticipation	1.99%	06/27/18	04/01/19	<u>471,837</u>
Total				<u>\$ 621,837</u>

* There is no set maturity date for the MCWT Septic note. The balance will be converted to a long-term note when the entire balance of the note has been drawn down by the Town.

The following summarizes activity in notes payable during fiscal year 2018:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Grant anticipation	\$ 378,738	\$ 55,600	\$ (434,338)	\$ -
MCWT septic program note	150,000	-	-	150,000
Bond anticipation	-	471,837	-	471,837
Total	<u>\$ 528,738</u>	<u>\$ 527,437</u>	<u>\$ (434,338)</u>	<u>\$ 621,837</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, 2018</u>
MWPAT - Pequot Pond Sewer	08/01/19	1.0 - 2.0	\$ 40,000
MWPAT - Title V Loans	08/01/20	1.0 - 2.0	31,000
MWPAT - Septic Betterment	07/15/25	-	60,000
MWPAT - Septic Betterment	07/15/27	-	25,000
Larrabee Renovation	06/30/30	2.0 - 5.0	<u>1,305,000</u>
Total Bonds Payable - Governmental Activities			1,461,000
<u>Bonds Payable -</u>			
<u>Business-Type Activities:</u>			
MWPAT - Landfill capping	08/01/19	1.0 - 2.0	40,000
MWPAT - Country Road (Water)	08/01/19	1.0 - 2.0	130,000
MWPAT - Water system upgrade	08/01/22	1.0 - 2.0	335,000
Water system expansion (RDA Loan)	04/06/33	5.63	300,599
Water system expansion # 3 (RDA Loan)	10/01/35	5.38	<u>470,039</u>
Total Bonds Payable - Business-Type Activities			<u>1,275,638</u>
Total Bonds Payable			<u>\$ 2,736,638</u>

	Intended Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>June 30, 2018</u>
<u>Notes Payable - Governmental Activities:</u>			
Fire department truck *	2020	4.25	\$ <u>52,900</u>
Total Notes Payable - Governmental Activities			\$ <u><u>52,900</u></u>

* This borrowing is a combination of several short-term notes intended to finance this purchase over a period of time. This is being accomplished by rolling over 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 2018 and due in fiscal year 2019.

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 176,850	\$ 58,249	\$ 235,099
2020	176,850	55,332	232,182
2021	130,200	45,168	175,368
2022	120,000	39,668	159,668
2023	120,000	35,248	155,248
2024 - 2028	580,000	109,932	689,932
2029 - 2030	<u>210,000</u>	<u>13,034</u>	<u>223,034</u>
Total	<u>\$ 1,513,900</u>	<u>\$ 356,631</u>	<u>\$ 1,870,531</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	106,472	35,155	141,627
2024 - 2028	214,675	143,461	358,136
2029 - 2033	279,968	77,705	357,673
Thereafter	<u>111,650</u>	<u>12,191</u>	<u>123,841</u>
Total	<u>\$ 1,275,638</u>	<u>\$ 436,944</u>	<u>\$ 1,712,582</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2017 (Restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Notes payable	\$ 214,350	\$ -	\$ (161,450)	\$ 52,900	\$ (26,450)	\$ 26,450
Bonds payable	1,611,400	-	(150,400)	1,461,000	(150,400)	1,310,600
Net pension liability	6,705,654	-	(965,827)	5,739,827	-	5,739,827
Net OPEB liability	7,332,868	-	(1,371,836)	5,961,032	-	5,961,032
Other:						
Compensated absences	155,086	9,806	-	164,892	-	164,892
Totals	\$ 16,019,358	\$ 9,806	\$ (2,649,513)	\$ 13,379,651	\$ (176,850)	\$ 13,202,801
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,443,560	\$ -	\$ (167,922)	\$ 1,275,638	\$ (179,453)	\$ 1,096,185
Net pension liability	154,350	-	(17,421)	136,929	-	136,929
Net OPEB liability	64,364	-	(1,201)	63,163	-	63,163
Other:						
Landfill liability	97,965	-	(10,885)	87,080	(10,885)	76,195
Compensated absences	5,566	166	-	5,732	-	5,732
Subtotal - other	103,531	166	(10,885)	92,812	(10,885)	81,927
Totals	\$ 1,765,805	\$ 166	\$ (197,429)	\$ 1,568,542	\$ (190,338)	\$ 1,378,204

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	\$ 955,000	57.81%	\$ 552,086

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 \$87,080 reported as landfill postclosure care liability at June 30, 2018 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in

2018. 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. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *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. 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	\$ 232,218	\$ 305,843
Major governmental fund	65,600	228,955
Nonmajor funds:		
Capital project funds	240,243	3,263
Expendable trust funds	-	4,249
Special revenue funds	<u>4,249</u>	<u>-</u>
Subtotal Nonmajor funds	<u>244,492</u>	<u>7,512</u>
Grand Total	<u>\$ 542,310</u>	<u>\$ 542,310</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, 2018:

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 stabilization funds restricted for specific purpose stabilization funds, 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, the general stabilization fund, and deficit fund balances.

Following is a breakdown of the Town's fund balances at June 30, 2018:

	<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	-	-	461,940	371,685	833,625
Expendable permanent funds	-	-	-	158,894	158,894
Total Restricted	-	-	461,940	530,579	992,519
Committed					
Stabilization funds for specific purposes*	94,315	-	-	-	94,315
Community preservation fund	-	1,692,155	-	-	1,692,155
Total Committed	94,315	1,692,155	-	-	1,786,470
Assigned					
Reserve for encumbrances	17,596	-	-	-	17,596
Total Assigned	17,596	-	-	-	17,596
Unassigned					
General fund	323,655	-	-	-	323,655
General stabilization fund	373,686	-	-	-	373,686
Deficit fund balances	-	-	-	(224,703)	(224,703)
Total Unassigned	697,341	-	-	(224,703)	472,638
Total Fund Balance	\$ 809,252	\$ 1,692,155	\$ 461,940	\$ 671,193	\$ 3,634,540

* 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 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to 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, 2018 was \$674,546, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At June 30, 2018, the Town reported a liability of approximately \$5.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the Town's proportion was 3.16 percent.

For the year ended June 30, 2018, the Town recognized pension expense of \$656,217. In addition, the Town reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 95,316
Net difference between projected and actual earnings on pension plan investments	-	249,714
Changes of assumptions	319,271	269,568
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>-</u>	<u>141,087</u>
Total	<u>\$ 319,271</u>	<u>\$ 755,685</u>

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

Year ended June 30:

2019	\$ (10,847)
2020	35,937
2021	161,003
2022	179,748
Thereafter	<u>70,573</u>
Total	<u>\$ 436,414</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.25% - 4.75%
Investment rate of return	7.45%

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

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2017.

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>
Domestic Equity	20.50%	4.82%
International Equities	16.50%	5.00%
Emerging Markets Equity	8.00%	6.50%
Domestic Fixed Income	10.00%	1.00%
Emerging Fixed Income	6.00%	3.75%
Global Fixed Income	3.00%	-0.25%
Opportunistic Fixed Income	9.00%	2.75%
Private Debt	3.00%	4.75%
Private Equity	10.00%	6.75%
Real Estate	12.00%	3.75%
Cash	2.00%	0.00%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.45%. 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 7.45 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 or 1 percentage-point higher than the current rate (in thousands):

1% Decrease	Current Discount Rate	1% Increase
<u>(6.45%)</u>	<u>(7.45%)</u>	<u>(8.45%)</u>
\$7,711	\$5,877	\$4,325

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) establish 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (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, 2017 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%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.6%
Value added fixed income	10.0%	3.8%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
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 (in thousands):

<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
\$28,424,300	\$22,885,391	\$18,193,400

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 2017 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$10.4 million based on a proportionate share of .05%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$561,000 as both a revenue and expenditure in general fund, and its portion of the collective pension expense of approximately \$1.1 million as both a revenue and expense in the governmental activities.

20. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2013, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

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

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through the Hampshire County Group Insurance Trust. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	72
Active employees	<u>123</u>
Total	<u>195</u>

B. Investments

The OPEB trust fund assets consist of corporate equities and mutual funds.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	5%
Salary increases	unavailable
Investment rate of return	7%, net of OPEB plan investment expense
Municipal bond rate	not applicable
Discount rate	7%
Healthcare cost trend rates	5% for 2018, fluctuating .5% to an ultimate rate of 4.5%
Retirees' share of benefit-related costs	50%

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

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2018.

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 and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	5.05%
International Equity	5.80%
Domestic Fixed Income	2.47%
International Fixed Income	2.40%
Alternative Investments	4.80%

D. Discount Rate

The discount rate used to measure the net OPEB liability was 7%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 6,205,964
Plan fiduciary net position	<u>(181,769)</u>
Net OPEB liability	<u>\$ 6,024,195</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 2.93%

F. Changes in the Net OPEB Liability

The following is a schedule of changes in the net OPEB liability:

	Increase (Decrease)		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balance, beginning of year	\$ 7,529,083	\$ 131,851	\$ 7,397,232
Changes for the year:			
Service cost	160,383	-	160,383
Interest	303,128	-	303,128
Contributions - employer	-	244,827	(244,827)
Net investment income	-	7,562	(7,562)
Experience (gain) and loss	1,046,630	-	1,046,630
Changes in assumptions or other inputs	(2,608,504)	-	(2,608,504)
Benefit payments	<u>(224,756)</u>	<u>(202,471)</u>	<u>(22,285)</u>
Net Changes	<u>(1,323,119)</u>	<u>49,918</u>	<u>(1,373,037)</u>
Balance, end of year	<u>\$ 6,205,964</u>	<u>\$ 181,769</u>	<u>\$ 6,024,195</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 4% in 2017 to 7% in 2018.

G. 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 one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(6%)</u>	Current Discount Rate <u>(7%)</u>	1% Increase <u>(8%)</u>
\$6,904,310	\$6,024,195	\$5,304,309

H. 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 as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	Current Healthcare Cost Trend	
1% Decrease <u>(4%)</u>	Rates <u>(5%)</u>	1% Increase <u>(6%)</u>
\$5,095,607	\$6,024,195	\$7,328,803

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

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$209,841. At June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 881,286	\$ -
Change in assumptions	-	2,196,418
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>633</u>
Total	<u>\$ 881,286</u>	<u>\$ 2,197,051</u>

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

<u>Year ended June 30:</u>	
2019	\$ 494,300
2020	247,558
2021	247,556
2022	247,032
2023	<u>79,319</u>
Total	<u>\$ 1,315,765</u>

21. 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, 2018 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, 2018, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.5 million, the Trust was in a surplus position of approximately \$22 million.

22. Beginning Net Position Restatement

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

<u>Government-Wide Financial Statements</u>	Governmental <u>Activities</u>	Business-Type <u>Activities</u> Water <u>Fund</u>
As previously reported	\$ 6,992,515	\$ 9,508,443
Implementation of GASB 75 OPEB	<u>(5,038,683)</u>	<u>(55,741)</u>
As restated	<u>\$ 1,953,832</u>	<u>\$ 9,452,702</u>

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

JUNE 30, 2018

(Unaudited)

(Amounts express in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	Proportion of the Net Pension <u>Liability</u>	Proportionate Share of the Net Pension <u>Liability</u>	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a <u>Percentage of Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2018	December 31, 2017	3.16%	\$5,877	\$2,486	236.40%	63.12%
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>	Proportion of the Net Pension <u>Liability</u>	Proportionate Share of the Net Pension <u>Liability</u>	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension <u>Liability Associated with the Town</u>	Total Net Pension Liability <u>Associated with the Town</u>	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a <u>Percentage of Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2018	June 30, 2017	0.05%	-	\$10,386	\$10,386	\$3,296	-	54.25%
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, 2018

(Unaudited)

(Amounts expressed in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$675	\$675	-	\$2,486	27.15%
June 30, 2017	December 31, 2016	\$615	\$615	-	\$2,361	26.05%
June 30, 2016	December 31, 2015	\$608	\$608	-	\$2,766	21.98%
June 30, 2015	December 31, 2014	\$573	\$573	-	\$2,638	21.72%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$561	\$561	-	\$3,296	17.02%
June 30, 2017	June 30, 2016	\$520	\$520	-	\$3,044	17.08%
June 30, 2016	June 30, 2015	\$459	\$459	-	\$2,849	16.11%
June 30, 2015	June 30, 2014	\$454	\$454	-	\$2,970	15.29%

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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

	For the year ended June 30,	
	2018	2017
Total OPEB liability		
Service cost	\$ 160	\$ 259
Interest on unfunded liability - time value of \$	303	294
Experience (gain) and loss	1,047	-
Change in assumptions	(2,608)	-
Benefit payments	(225)	(217)
Net change in total OPEB liability	(1,323)	336
Total OPEB liability - beginning	7,529	7,193
Total OPEB liability - ending (a)	6,206	7,529
 Plan fiduciary net position		
Contributions - employer	245	245
Net investment income	8	6
Benefit payments	(203)	(195)
Net change in plan fiduciary net position	50	56
Plan fiduciary net position - beginning	132	76
Plan fiduciary net position - ending (b)	182	132
 Net OPEB liability (asset) - ending (a-b)	\$ 6,024	\$ 7,397

*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 AND 75)

(Unaudited)

(Amounts expressed in thousands)

	<u>For the year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability		
Total OPEB liability	\$ 6,206	\$ 7,529
Plan fiduciary net position	<u>(182)</u>	<u>(132)</u>
Net OPEB liability	<u>\$ 6,024</u>	<u>\$ 7,397</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 2.93%	 1.75%
 Schedule of Contributions	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 245	\$ 245
Contributions in relation to the actuarially determined contribution	<u>(245)</u>	<u>(245)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Schedule of Investment Returns	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	unavailable	unavailable

*Schedules are 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.

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

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

Independent Auditors' Report

Board of Selectmen
Town of Southamton, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 14, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is describe as comment No. 1 in the Town's management letter.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in the management letter. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Melanson Heath

March 14, 2019