

TOWN OF FREETOWN, MASSACHUSETTS

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

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

TOWN OF FREETOWN, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Freetown, 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 Freetown, Massachusetts, (the Town) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of the net pension liability and the Town's contributions to pension plan, the funding progress and contributions for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 14, 2017

Management's Discussion and Analysis

As the management of the Town of Freetown, Massachusetts (the Town) we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by nearly \$19.2 million (*total net position*). Nearly \$16.7 million represented net position of governmental activities and over \$2.5 million represented net position of the business-type activities.
- The government's total net position increased over \$1.0 million. Governmental activities net position increased nearly \$1.1. Business-type activities experienced a net no change as net position was virtually flat with the prior year.
- The Town's unassigned fund balance reported in the General Fund was approximately \$7.9 million (36.4% of General Fund expenditures). Total fund balance in the General Fund was approximately \$8.8 million (40.9% of General Fund expenditures). The Town reported nearly \$1.0 million and approximately \$0.4 million in Restricted and Nonspendable Fund Balance respectively in the Combined Nonmajor Governmental Funds.
- The Town's long-term debt decreased by over \$0.6 million during the fiscal year due to regular scheduled maturities of debt.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, education, debt service, fringe benefits and culture and recreation. The business-type activities of the Town include water and sewer enterprise funds.

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

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

- Nonspendable—amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid items) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

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

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

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

The Town adopts an annual appropriated budget for its general fund and enterprise funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

This schedule has been prepared as required supplementary information and can be found after the notes to the financial statements.

Proprietary Funds Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Town’s water and sewer enterprise fund activities.

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

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

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

Government-wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental activities		Business-type activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Assets						
Current and other assets	\$ 15,996,237	\$ 15,124,018	\$ 731,100	\$ 754,575	\$ 16,727,337	\$ 15,878,593
Capital assets, net	19,152,693	19,325,416	2,116,752	2,144,505	21,269,445	21,469,921
Total assets	35,148,930	34,449,434	2,847,852	2,899,080	37,996,782	37,348,514
Deferred outflows of resources	2,141,968	2,675,254	35,375	37,435	2,177,343	2,712,689
Liabilities						
Long-term liabilities	19,703,156	20,050,573	168,269	163,030	19,871,425	20,213,603
Other liabilities	377,235	271,451	122,896	241,718	500,131	513,169
Total liabilities	20,080,391	20,322,024	291,165	404,748	20,371,556	20,726,772
Deferred inflows of resources	317,744	275,201	5,248	3,851	322,992	279,052
Net Position						
Net investment in capital assets	14,264,763	13,511,165	2,012,252	2,100,255	16,277,015	15,611,420
Restricted	4,518,283	4,820,526	-	-	4,518,283	4,820,526
Unrestricted	(2,115,383)	(2,729,228)	499,562	427,661	(1,615,821)	(2,301,567)
Net Position	\$ 16,667,663	\$ 15,602,463	\$ 2,511,814	\$ 2,527,916	\$ 19,179,477	\$ 18,130,379

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by almost \$19.2 million (*total net position*).

By far the largest portion (approximately \$16.3 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$4.5 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is in deficit by approximately \$1.6 million. This has resulted from the recognition of other postemployment benefits of nearly \$5.9 million since inception in 2009 as well as the recognition of nearly \$8.6 million of net pension liability with the implementation of GASB Statement 68 in fiscal year 2015. We expect the annual provision for these liabilities will continue to decrease unrestricted net position for the foreseeable future.

The condensed statement of changes in net position is as follows:

	<u>Governmental activities</u>		<u>Business activities</u>		<u>Total</u>	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,320,901	\$ 1,815,734	\$ 770,408	\$ 706,545	\$ 2,091,309	\$ 2,522,279
Operating grants and contributions	853,574	868,063	-	-	853,574	868,063
Capital grants and contributions	502,603	683,490	-	2,122	502,603	685,612
General revenues:						
Property taxes	18,562,703	17,441,231	-	-	18,562,703	17,441,231
Grants and contributions not restricted to specific programs	1,124,156	1,087,041	-	-	1,124,156	1,087,041
Other	2,086,131	1,922,389	1,483	178	2,087,614	1,922,567
Total revenues	24,450,068	23,817,948	771,891	708,845	25,221,959	24,526,793
<u>Expenses</u>						
General government	2,140,359	2,005,004	-	-	2,140,359	2,005,004
Public safety	5,877,230	5,501,333	-	-	5,877,230	5,501,333
Education	11,394,221	11,452,585	-	-	11,394,221	11,452,585
Public works	3,020,351	2,685,340	-	-	3,020,351	2,685,340
Health and human services	545,805	511,992	-	-	545,805	511,992
Culture and recreation	220,622	224,697	-	-	220,622	224,697
Interest expense	63,552	67,797	-	-	63,552	67,797
Water	-	-	730,393	660,860	730,393	660,860
Sewer	-	-	180,328	182,531	180,328	182,531
Total expenses	23,262,140	22,448,748	910,721	843,391	24,172,861	23,292,139
Change in net position before	1,187,928	1,369,200	(138,830)	(134,546)	1,049,098	1,234,654
Transfers	(122,728)	(202,539)	122,728	202,539	-	-
Change in net position	1,065,200	1,166,661	(16,102)	67,993	1,049,098	1,234,654
Net position, beginning of year, as restated	15,602,463	14,435,802	2,527,916	2,459,923	18,130,379	16,895,725
Net position, end of year	\$ 16,667,663	\$ 15,602,463	\$ 2,511,814	\$ 2,527,916	\$ 19,179,477	\$ 18,130,379

Governmental Activities - The Town's most significant source of revenues is property taxes, which, during 2017, made up approximately 75.9% of total revenues, and increased over \$1.1 million as compared to the prior year. This was expected as the Town is allowed to assess property taxes at 2 ½ % of the prior year amount. In addition, amounts assessed greater than this that are attributable to debt exclusion and new growth are also legally permissible. Charges for services which represented 5.4% of total revenues was nearly \$0.5 million lower than the prior year. This was due to a complete overhaul of the outstanding ambulance receivable balance which resulted in almost \$300,000 in write-offs and an additional \$100,000 in additional provisions for write-offs over the prior year. All other revenue categories by type were consistent with the prior year.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 50.0% which was consistent year to year in both dollar and percent of total expenses. Public safety expenses represented 25.6% which was slightly higher than the prior year of 24.5%. Public works expenses comprised about 13.0% as compared to about 12.0% in the prior year. In these and other expense categories there were modest dollar increases across the board over the prior year due mainly to greater benefits allocation which increased year to year.

Business-type Activities - Major revenue sources consist of revenue from water and sewer user charges which represented almost 100% of total revenues. Water and sewer expenses represented 80.2% and 19.9% of total business-type expenses, respectively. Results were in line with expectations as net change in position was essentially flat.

Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the general fund was approximately \$7.9 million, while total fund balance reached approximately \$8.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 36.4% of total general fund expenditures, while total fund balance represents approximately 40.9% of that same amount.

The Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$10.2 million. This was \$2.2 million greater than the prior year. The reasons were twofold; (1) revenues exceeding forecasts by \$1.4 million due to the Town being the beneficiary of the continued economic expansion and (2) expenditure turn-backs of \$0.9 million due to continued stringent monitoring of the budget. The Capital Project major fund restricted fund balance of approximately \$0.1 million was consistent with the prior year as highway expenditures were funded from a like amount of state highway funds. Aggregate nonmajor fund operations were consistent with the prior year.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water and sewer funds were approximately \$2.3 million and \$0.2 million, respectively. These balances were consistent with the prior year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for departmental functions were approximately \$0.8 million and related primarily to adjustments to the Public Safety budget for costs related to a new Police Station. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to approximately \$21.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment and reflects a decrease of approximately \$0.2 million as depreciation of approximately \$1.7 million was offset by additions of approximately \$1.5 million.

Additional information on the Town capital assets can be found in Note II, Section C. of this report.

Long-term Debt - At the end of the current fiscal year, the Town had total bonded debt outstanding of approximately \$4.5 million which is nearly all accounted for as general obligation bonds within the governmental activities. The Town's debt in its business-type activities was not significant.

The Town's long-term debt in the governmental funds decreased by approximately \$0.6 million during the fiscal year due to regular scheduled maturities of debt.

The Town maintained a bond rating of AA+ as set by Standard and Poor for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$59.1 million, which is significantly in excess of the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates continue to improve and are now trending near historic low levels.
- The Town's real estate tax base is made up of approximately 72.5% residential real estate tax. Its commercial, industrial and personal property taxes make up the remainder of the tax base at 27.5%. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town's housing market stabilized from the downward trend experienced earlier this decade; and is now approaching its 2005 peak.
- In May 2017, the Town voted an initial general fund appropriation budget for fiscal year 2018 that was in balance. The tax rate was certified November 28, 2017.

The above items were considered when the Town developed its budget for fiscal year 2018.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances. For all those with an interest in the government's finances, questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Accountant, 3 North Main Street, PO Box 438 Assonet, Massachusetts 02702.

TOWN OF FREETOWN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,721,168	\$ 460,400	\$ 11,181,568
Receivables, net of allowance for uncollectibles:			
Property taxes	1,596,021	-	1,596,021
Excise	253,389	-	253,389
User fees	-	237,294	237,294
Special assessments	-	33,406	33,406
Departmental and other	174,991	-	174,991
Intergovernmental	3,245,879	-	3,245,879
Tax foreclosures	4,789	-	4,789
Other assets	-	-	-
Capital assets, not being depreciated	1,908,713	80,331	1,989,044
Capital assets, net of depreciation	17,243,980	2,036,421	19,280,401
Total Assets	35,148,930	2,847,852	37,996,782
Deferred Outflows of Resources	2,141,968	35,375	2,177,343
Liabilities			
Current liabilities:			
Warrants and accounts payable	377,235	122,896	500,131
Other liabilities	100	-	100
Bond anticipation notes	225,000	75,000	300,000
Noncurrent liabilities:			
Due in one year or less	930,940	14,750	945,690
Due in more than one year	18,772,216	153,519	18,925,735
Total Liabilities	20,305,491	366,165	20,671,656
Deferred Inflows of Resources	317,744	5,248	322,992
Net Position			
Net investment in capital assets	14,264,763	2,012,252	16,277,015
Restricted for:			
Nonexpendable permanent funds	399,978	-	399,978
Debt service	3,100,947	-	3,100,947
Other purposes	1,017,358	-	1,017,358
Unrestricted	(2,115,383)	499,562	(1,615,821)
Total Net Position	\$ 16,667,663	\$ 2,511,814	\$ 19,179,477

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>							
General government	\$ 2,140,359	\$ 377,198	\$ 5,223	\$ -	\$ (1,757,938)		\$ (1,757,938)
Public safety	5,877,230	495,024	120,145	95,000	(5,167,061)		(5,167,061)
Education	11,394,221	-	462,153	-	(10,932,068)		(10,932,068)
Public works	3,020,351	411,292	10,798	407,603	(2,190,658)		(2,190,658)
Health and human services	545,805	37,226	146,521	-	(362,058)		(362,058)
Culture and recreation	220,622	161	37,626	-	(182,835)		(182,835)
Interest expense	63,552	-	71,108	-	7,556		7,556
Total Governmental Activities	23,262,140	1,320,901	853,574	502,603	(20,585,062)		(20,585,062)
<u>Business-Type Activities:</u>							
Sewer	180,328	222,110	-	-		41,782	41,782
Water	730,393	548,298	-	-		(182,095)	(182,095)
Total Primary Government	\$ 24,172,861	\$ 2,091,309	\$ 853,574	\$ 502,603	(20,585,062)	(140,313)	(20,725,375)
<u>General Revenues:</u>							
					18,562,703	-	18,562,703
					1,124,156	-	1,124,156
					1,851,692	-	1,851,692
					204,109	-	204,109
					30,330	1,483	31,813
					(122,728)	122,728	-
					21,650,262	124,211	21,774,473
					1,065,200	(16,102)	1,049,098
					15,602,463	2,527,916	18,130,379
					\$ 16,667,663	\$ 2,511,814	\$ 19,179,477

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

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

	General	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 9,141,996	\$ 383,286	\$ 1,195,886	\$ 10,721,168
Receivables, net of allowance				
Property taxes	1,596,021	-	-	1,596,021
Excise taxes	253,389	-	-	253,389
Departmental and other	115,136	-	59,855	174,991
Due from other government	3,213,927	-	31,952	3,245,879
Tax Foreclosures	4,789	-	-	4,789
Other assets	-	-	-	-
Total Assets	<u>14,325,258</u>	<u>383,286</u>	<u>1,287,693</u>	<u>15,996,237</u>
Total Deferred Outflows of Resources:				
	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 14,325,258</u>	<u>\$ 383,286</u>	<u>\$ 1,287,693</u>	<u>\$ 15,996,237</u>
Liabilities:				
Warrants and accounts payable	\$ 348,592	\$ 24,762	\$ 3,881	\$ 377,235
Other liabilities	100	-	-	100
Bond anticipation notes	-	225,000	-	225,000
Total Liabilities	<u>348,692</u>	<u>249,762</u>	<u>3,881</u>	<u>602,335</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	1,540,162	-	-	1,540,162
Unavailable revenue - excise taxes	253,389	-	-	253,389
Unavailable revenue - intergovernmental	3,213,927	-	-	3,213,927
Unavailable revenue - other	119,925	-	59,855	179,780
Total Deferred Inflows of Resources	<u>5,127,403</u>	<u>-</u>	<u>59,855</u>	<u>5,187,258</u>
Fund Balances:				
Nonspendable	-	-	399,978	399,978
Restricted	-	133,524	823,979	957,503
Committed	889,470	-	-	889,470
Assigned	76,600	-	-	76,600
Unassigned	7,883,093	-	-	7,883,093
Total Fund Balances	<u>8,849,163</u>	<u>133,524</u>	<u>1,223,957</u>	<u>10,206,644</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,325,258</u>	<u>\$ 383,286</u>	<u>\$ 1,287,693</u>	<u>\$ 15,996,237</u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 10,206,644
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,152,693
Other long-term assets are unavailable to pay for current-period expenditures	5,187,258
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Differences between expected and actual experience	343,104
Net difference between projected and actual earnings on pension plan investments	1,085,066
Changes in proportion and differences between employer contributions and proportionate share of contributions	597,562
Changes of assumptions	(201,508)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(4,465,000)
Unamortized bond premiums	(118,317)
Capital lease obligations	(462,900)
Landfill post-closure monitoring	(295,993)
Compensated absences	(103,439)
Other postemployment benefits	(5,855,094)
Net pension liability	(8,402,413)
Net Position of Governmental Activities	\$ 16,667,663

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

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

	General	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 18,625,820	\$ -	\$ -	\$ 18,625,820
Intergovernmental	2,219,791	395,078	122,790	2,737,659
Motor vehicle and other excises	1,869,533	-	-	1,869,533
License and permits	441,107	-	-	441,107
Departmental and other revenue	1,049,048	-	69,931	1,118,979
Penalties and interest on taxes	202,262	-	1,847	204,109
Fines and forfeitures	39,379	-	-	39,379
Investment income	29,552	-	778	30,330
Contributions and donations	-	-	172,331	172,331
Total Revenues	<u>24,476,492</u>	<u>395,078</u>	<u>367,677</u>	<u>25,239,247</u>
Expenditures:				
Current:				
General government	1,286,248	-	46,571	1,332,819
Public safety	3,743,738	-	268,057	4,011,795
Education	11,182,424	-	-	11,182,424
Public works	1,586,714	876,186	211,535	2,674,435
Health and human services	357,135	-	19,067	376,202
Culture and recreation	124,567	-	26,558	151,125
Pensions and other fringes	2,403,166	-	-	2,403,166
Court judgments	-	-	-	-
State and county tax assessments	256,695	-	-	256,695
Debt service:				
Principal payments	605,000	-	-	605,000
Interest expense	98,819	-	-	98,819
Total Expenditures	<u>21,644,506</u>	<u>876,186</u>	<u>571,788</u>	<u>23,092,480</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,831,986</u>	<u>(481,108)</u>	<u>(204,111)</u>	<u>2,146,767</u>
Other Financing Sources (Uses):				
Capital lease financing	-	-	231,475	231,475
Transfers in	8,800	700,000	-	708,800
Transfers out	(822,728)	-	(8,800)	(831,528)
Total Other Financing Sources (Uses)	<u>(813,928)</u>	<u>700,000</u>	<u>222,675</u>	<u>108,747</u>
Net Change in Fund Balances	2,018,058	218,892	18,564	2,255,514
Fund Balances - Beginning	6,831,105	(85,368)	1,205,393	7,951,130
Fund Balances - Ending	<u>\$ 8,849,163</u>	<u>\$ 133,524</u>	<u>\$ 1,223,957</u>	<u>\$ 10,206,644</u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 2,255,514**

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. This amount represents the net amount of depreciation expense in excess of capital outlay. The amounts are represented here as reconciling items:

Capital outlays	\$ 1,413,011	
Depreciation expense	(1,585,734)	
Net effect of reporting capital assets		(172,723)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Proceeds from capital lease obligations	(231,475)	
Amortization of bond premiums	35,267	
Repayments of capital lease obligations	298,273	
Repayments of bonds and notes	605,000	
Net effect of reporting long-term debt		707,065

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue. (789,179)

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:

Landfill monitoring	37,007	
Court judgments	-	
Compensated absences	(7,299)	
Other postemployment benefits	(475,423)	
Pension benefits	(489,762)	
Net effect of reporting long-term liabilities		(935,477)

Change in Net Position of Governmental Activities **\$ 1,065,200**

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2017

	Business-Type Activities		Total Enterprise Funds
	Sewer	Water	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 175,976	\$ 284,424	\$ 460,400
User fees, net of allowance	52,227	185,067	237,294
Special assessments	-	818	818
Total current assets	<u>228,203</u>	<u>470,309</u>	<u>698,512</u>
Noncurrent assets:			
Special assessments	-	32,588	32,588
Capital assets, not being depreciated	-	80,331	80,331
Capital assets, net of depreciation	-	2,036,421	2,036,421
Total noncurrent assets	<u>-</u>	<u>2,149,340</u>	<u>2,149,340</u>
Total Assets	<u>228,203</u>	<u>2,619,649</u>	<u>2,847,852</u>
Deferred outflows of resources	<u>-</u>	<u>35,375</u>	<u>35,375</u>
Liabilities:			
Current liabilities:			
Warrants payable and other liabilities	42,193	80,703	122,896
Short-term notes payable	-	75,000	75,000
Bond indebtedness	-	14,750	14,750
Total current liabilities	<u>42,193</u>	<u>170,453</u>	<u>212,646</u>
Noncurrent liabilities:			
Bond indebtedness	-	14,750	14,750
Net pension liability	-	138,769	138,769
Total noncurrent liabilities	<u>-</u>	<u>153,519</u>	<u>153,519</u>
Total Liabilities	<u>42,193</u>	<u>323,972</u>	<u>366,165</u>
Deferred inflows of resources	<u>-</u>	<u>5,248</u>	<u>5,248</u>
Net Position:			
Net investment in capital assets	-	2,012,252	2,012,252
Unrestricted	186,010	313,552	499,562
Total Net Position	<u>\$ 186,010</u>	<u>\$ 2,325,804</u>	<u>\$ 2,511,814</u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017**

	Business-Type Activities		Total Enterprise Funds
	Sewer	Water	
Operating Revenues:			
Usage charges	\$ 221,956	\$ 495,903	\$ 717,859
Other fees	154	52,395	52,549
Total Operating Revenues	<u>222,110</u>	<u>548,298</u>	<u>770,408</u>
Operating Expenses:			
Operating costs	180,328	654,758	835,086
Depreciation	-	72,759	72,759
Total Operating Expenses	<u>180,328</u>	<u>727,517</u>	<u>907,845</u>
Total Operating Income	<u>41,782</u>	<u>(179,219)</u>	<u>(137,437)</u>
Nonoperating Income (Expenses):			
Interest income	-	1,483	1,483
Interest expense	-	(2,876)	(2,876)
Total Nonoperating Revenues (Expenses), net	<u>-</u>	<u>(1,393)</u>	<u>(1,393)</u>
Income (Loss) Before Transfers and Capital Contributions	41,782	(180,612)	(138,830)
Capital contributions	-	-	-
Transfers in	-	122,728	122,728
Change in Net Position	41,782	(57,884)	(16,102)
Net Position - Beginning	<u>144,228</u>	<u>2,383,688</u>	<u>2,527,916</u>
Net Position - Ending	<u>\$ 186,010</u>	<u>\$ 2,325,804</u>	<u>\$ 2,511,814</u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

	Business-Type Activities		Total Enterprise Funds
	Sewer	Water	
Cash Flows from Operating Activities:			
Receipts from users	\$ 255,245	\$ 638,884	\$ 894,129
Payments to vendors	(239,846)	(535,881)	(775,727)
Payments to employees	(7,443)	(147,292)	(154,735)
Net Cash Provided by Operating Activities	7,956	(44,289)	(36,333)
Cash Flows from Noncapital Related Financing Activities:			
Interest income	-	1,483	1,483
Transfers in	-	122,728	122,728
Net Cash Used for Noncapital Related Financing Activities	-	124,211	124,211
Cash Flows from Capital and Related Financing Activities:			
Special assessments	-	(2,808)	(2,808)
Issuance of short-term notes	-	75,000	75,000
Principal payments on bonds	-	(14,750)	(14,750)
Acquisition and construction of capital assets	-	(45,006)	(45,006)
Interest expense	-	(2,876)	(2,876)
Net Cash Used for Capital and Related Financing Activities	-	9,560	9,560
Net Change in Cash and Cash Equivalents	7,956	89,482	97,438
Cash and Cash Equivalents:			
Beginning of year	168,020	194,942	362,962
End of year	<u>\$ 175,976</u>	<u>\$ 284,424</u>	<u>\$ 460,400</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:			
Operating income (loss)	\$ 41,782	\$ (179,219)	\$ (137,437)
Depreciation	-	72,759	72,759
Changes in assets, deferred outflows, deferred inflows and liabilities:			
Receivables (net)	33,135	90,586	123,721
Deferred outflows of resources	-	2,060	2,060
Deferred inflows of resources	-	1,397	1,397
Liabilities (net)	(66,961)	(31,872)	(98,833)
Net Cash Provided From Operating Activities	<u>\$ 7,956</u>	<u>\$ (44,289)</u>	<u>\$ (36,333)</u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION**

JUNE 30, 2017

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
Assets:			
Cash and cash equivalents	\$ 367,698	\$ 15,476	\$ 87,066
Receivables:			
Departmental	-	-	22,772
Total Assets	367,698	15,476	109,838
Liabilities:			
Warrants and accounts payables	-	-	81,210
Other liabilities	-	-	28,628
Total Liabilities	-	-	\$ 109,838
Net Position:			
Held in trust for:			
Other postemployment benefits	367,698	-	
Private purposes	-	15,476	
Total Net Position	\$ 367,698	\$ 15,476	

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

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

	<u>Other Postemployment Benefits Trust Fund</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Intergovernmental	\$ 976,420	\$ -
Private donations	-	206
Total contributions	<u>976,420</u>	<u>206</u>
Investment income:		
Interest and dividends	<u>334</u>	<u>15</u>
Net investment earnings	<u>334</u>	<u>15</u>
Total Additions	<u>976,754</u>	<u>221</u>
DEDUCTIONS		
Life and health insurance premiums paid for retirees	776,420	-
Educational scholarships paid	<u>-</u>	<u>-</u>
Total Deductions	<u>776,420</u>	<u>-</u>
CHANGE IN NET POSITION	200,334	221
NET POSITION AT BEGINNING OF YEAR	<u>167,364</u>	<u>15,255</u>
NET POSITION AT END OF YEAR	<u><u>\$ 367,698</u></u>	<u><u>\$ 15,476</u></u>

See accompanying notes to basic financial statements.

TOWN OF FREETOWN, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located approximately 50 miles south of Boston in Bristol County. It was established as a Town in 1683. The Town is governed by an elected three-member Board of Selectmen. The board members serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, rubbish disposal, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities.

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

The Town is a member community of the Freetown-Lakeville Regional School District that provides educational services to two area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2017, the Town's share of the operating and debt service expenses was \$9,515,156. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 98 Howland Road, Lakeville, MA 02347.

B. Government-Wide and Fund Financial Statements

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

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

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

- 1) Total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2) Total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

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

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

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

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

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

The government reports the following major governmental funds:

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

Capital Projects Fund – is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

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

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

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

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

The government reports the following major proprietary fund:

Sewer Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

Water Enterprise Fund - accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

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

The government reports the following fiduciary funds:

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

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

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for monies held on behalf of parties other than the Town, such as abandoned property, planning deposits and police off-duty activity. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

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

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

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

User fees consist of water and sewer fees. Water user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. The sewer enterprise fund has two users that are billed quarterly by the Town. Due to the location of the users, sewer services are provided by the City of Fall River, which bills the Town on a quarterly basis for the usage.

Real estate taxes, user fees and special assessments may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental and other receivables primarily consist of ambulance receivables and are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

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

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

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

All purchases and construction costs in excess of the Town’s capitalization thresholds are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than one year. 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. The Town’s capitalization thresholds are as follows:

Land, buildings and improvements	\$	50,000
Vehicles, machinery and equipment		5,000
Infrastructure		75,000

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

Buildings and improvements	40 years
Machinery and equipment	5 years
Vehicles	5-21 years
Infrastructure	20-50 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

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

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

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

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

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

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

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

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

Debt service represents a capital grant to fund a portion of the debt service on outstanding school construction debt that will be amortized over the life of the bonds in accordance with state law.

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

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

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

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

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

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

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

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

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

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

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$4,458,908 at June 30, 2017 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and; (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

The Town reports \$889,470 of encumbrances from Town Meeting votes in the general fund as committed and \$76,600 of encumbrances from normal purchasing activity in the general fund as assigned at June 30, 2017. There are no encumbrances reported in any other fund.

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

	General	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 399,978	\$ 399,978
Restricted:				
General government	-	-	341,595	341,595
Public safety	-	-	97,956	97,956
Public works	-	133,524	174,637	308,161
Health and human services	-	-	39,934	39,934
Culture and recreation	-	-	169,857	169,857
Committed:				
General government	109,706	-	-	109,706
Public safety	719,539	-	-	719,539
Public works	45,225	-	-	45,225
Culture and recreation	15,000	-	-	15,000
Assigned:				
General government	10,077	-	-	10,077
Public safety	35,717	-	-	35,717
Public works	3,850	-	-	3,850
Culture and recreation	700	-	-	700
Pensions and other fringes	26,256	-	-	26,256
Unassigned	7,883,093	-	-	7,883,093
	<u>\$ 8,849,163</u>	<u>\$ 133,524</u>	<u>\$ 1,223,957</u>	<u>\$ 10,206,644</u>

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice costs by \$219,424. This over-expenditure will be funded through available funds during fiscal year 2018.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town's deposit policy for custodial risk states the Town's objectives include diversification of accounts and prudent selection of investment instruments, and choice of bank or brokerage house. At year-end, the carrying amount of the Town's deposits was \$11,651,808 and the bank balance was \$11,743,364. Of the Town's bank balance, \$9,049,691 was covered by either federal depository insurance or by the depositors' insurance fund and \$2,693,673 was collateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does not have a formal investment policy related to custodial credit risk. The Town's investments of \$339 in the MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

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

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

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

The Town has \$339 of Level 2 investments carried at fair value on a recurring basis in the statement of net position at June 30, 2017. The Town’s investment in MMDT is classified in Level 2 based on the composition and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

Interest Rate Risk – The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer.

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

B. Receivables

School Building Assistance Reimbursement – As of June 30, 2017, the Town expects to receive the balance of grants from the Commonwealth of Massachusetts totaling \$3,356,311 that are applicable to approved school construction costs which includes both principal and interest. These costs are reimbursed to the Town in equal installments over the life of the related bond issues and are subject to appropriation only by the State Legislature. In the Governmental funds, a receivable totaling \$3,100,947 under the caption Intergovernmental has been recorded in the General Fund which represents the reimbursable portion of the principal balance as of June 30, 2017.

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 382,182	\$ -	\$ 382,182
Tax liens	1,197,960	-	1,197,960
Deferred property taxes	15,879	-	15,879
Motor Vehicle and other excise taxes	253,389	-	253,389
Ambulance	257,472	(144,516)	112,956
Departmental and other	62,035	-	62,035
Intergovernmental	3,245,879	-	3,245,879
Total	\$ 5,414,796	\$ (144,516)	\$ 5,270,280

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 185,067	\$ -	\$ 185,067
Water special assessments	33,406	-	33,406
Sewer user fees	52,227	-	52,227
Total	<u>\$ 270,700</u>	<u>\$ -</u>	<u>\$ 270,700</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivables:			
Real estate and personal property taxes	\$ 326,323	\$ -	\$ 326,323
Tax liens	1,197,960	-	1,197,960
Deferred property taxes	15,879	-	15,879
Motor Vehicle and other excise taxes	253,389	-	253,389
Intergovernmental	3,213,927	-	3,213,927
Ambulance	112,956	-	112,956
Departmental and other	6,969	59,855	66,824
Total	<u>\$ 5,127,403</u>	<u>\$ 59,855</u>	<u>\$ 5,187,258</u>

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,151,057	\$ -	\$ -	\$ 1,151,057
Construction in Progress	250,189	507,467	-	757,656
Total capital assets not being depreciated	<u>1,401,246</u>	<u>507,467</u>	<u>-</u>	<u>1,908,713</u>
Capital assets being depreciated:				
Land Improvements	268,381	-	-	268,381
Building and building improvements	11,402,956	57,004	-	11,459,960
Machinery and equipment	1,417,039	381,305	(26,255)	1,772,089
Vehicles	3,799,187	88,713	(722,772)	3,165,128
Infrastructure	29,288,756	378,522	-	29,667,278
Total capital assets being depreciated	<u>46,176,319</u>	<u>905,544</u>	<u>(749,027)</u>	<u>46,332,836</u>
Less accumulated depreciation for:				
Land Improvements	(121,855)	(7,768)	-	(129,623)
Building	(4,740,269)	(264,973)	-	(5,005,242)
Machinery and equipment	(1,049,488)	(88,639)	26,255	(1,111,872)
Vehicles	(2,659,304)	(261,595)	722,772	(2,198,127)
Infrastructure	(19,681,233)	(962,759)	-	(20,643,992)
Total accumulated depreciation	<u>(28,252,149)</u>	<u>(1,585,734)</u>	<u>749,027</u>	<u>(29,088,856)</u>
Total capital assets being depreciated, net	<u>17,924,170</u>	<u>(680,190)</u>	<u>-</u>	<u>17,243,980</u>
Governmental activities capital assets, net	<u>\$ 19,325,416</u>	<u>\$ (172,723)</u>	<u>\$ -</u>	<u>\$ 19,152,693</u>
<i>Business-Type Activities:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 35,325	\$ 45,006	\$ -	\$ 80,331
Capital assets being depreciated:				
Infrastructure	3,589,898	-	-	3,589,898
Machinery and equipment	25,325	-	-	25,325
Total capital assets being depreciated	<u>3,615,223</u>	<u>-</u>	<u>-</u>	<u>3,615,223</u>
Less accumulated depreciation for:				
Infrastructure	(1,480,718)	(72,759)	-	(1,553,477)
Machinery and equipment	(25,325)	-	-	(25,325)
Total accumulated depreciation	<u>(1,506,043)</u>	<u>(72,759)</u>	<u>-</u>	<u>(1,578,802)</u>
Total capital assets being depreciated, net	<u>2,109,180</u>	<u>(72,759)</u>	<u>-</u>	<u>2,036,421</u>
Business-type activities capital assets, net	<u>\$ 2,144,505</u>	<u>\$ (27,753)</u>	<u>\$ -</u>	<u>\$ 2,116,752</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>	
General government	\$ 27,304	Water	\$ 72,759
Public safety	258,788		
Education	237,524	Total Business-Type Activities	<u>\$ 72,759</u>
Public Works	1,058,108		
Health and Human Services	4,010		
Total Governmental Activities	<u>\$ 1,585,734</u>		

D. Interfund Receivables, Payables and Transfers

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

	Transfers In			Total	
	General Fund	Capital Project Fund	Water Enterprise Fund		
Transfers Out					
General Fund	\$ -	\$ 700,000	\$ 122,728	\$ 822,728	(1)
Nonmajor Governmental Funds	8,800	-	-	8,800	(2)
Total	<u>\$ 8,800</u>	<u>\$ 700,000</u>	<u>\$ 122,728</u>	<u>\$ 831,528</u>	

(1) Transfer to capital project fund and to water enterprise fund for capital purposes.

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

E. Leases

The Town has entered into non-cancelable leases for the purchases of vehicles and equipment. These long-term leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	Amount
<i>Assets:</i>	
Vehicles and equipment	\$ 1,633,178
Less: accumulated depreciation	(669,856)
Total	<u>\$ 963,322</u>

The future minimum lease payments and the present value of the minimum leases payments at June 30, 2017, are as follows:

Fiscal Year Ended June 30,	Amount
2018	\$ 254,428
2019	195,176
2020	43,144
Total minimum lease payments	492,748
Less: amounts representing interest	(29,848)
Present value of minimum lease payments	<u>\$ 462,900</u>

F. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

The following is a summary of temporary notes outstanding for the year ended June 30, 2017:

Type	Interest Rate	Maturity Date	July 1, 2016	Additions	Retirements	June 30, 2017
BAN	0.75%	12/01/16	\$ 925,000	\$ -	\$ (925,000)	\$ -
BAN	1.00%	12/01/17	<u> </u>	225,000	<u> </u>	225,000
Total Notes Payable			<u>\$ 925,000</u>	<u>\$ 225,000</u>	<u>\$ (925,000)</u>	<u>\$ 225,000</u>
BAN	1.00%	12/01/17	<u> </u>	75,000	<u> </u>	75,000
Total Business-Type Notes			<u> </u>	<u>75,000</u>	<u> </u>	<u>75,000</u>
Total Notes Payable			<u>\$ 925,000</u>	<u>\$ 300,000</u>	<u>\$ (925,000)</u>	<u>\$ 300,000</u>

BAN's outstanding at year end were issued for bridge construction and work on the South Main filter site.

G. Long-Term Obligations

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

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

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 5,070,000	\$ -	\$ (605,000)	\$ 4,465,000	\$ 615,000
Unamortized bond premium	153,584	-	(35,267)	118,317	35,268
Capital lease obligations	529,698	231,475	(298,273)	462,900	235,953
Landfill post-closure	333,000	-	(37,007)	295,993	29,203
Compensated absences	96,140	24,369	(17,070)	103,439	15,516
Court judgments	-	-	-	-	-
Other postemployment benefits	5,379,671	1,251,736	(776,313)	5,855,094	-
Net pension liability	8,488,480	3,462,055	(3,548,122)	8,402,413	-
Total Governmental Activities	\$ 20,050,573	\$ 4,969,635	\$ (5,317,052)	\$ 19,703,156	\$ 930,940
Business-type Activities:					
Long-term bonds and notes	\$ 44,250	\$ -	\$ (14,750)	\$ 29,500	\$ 14,750
Net pension liability	118,780	38,021	(18,032)	138,769	-
Total Business-type Activities: Sewer	163,030	38,021	(32,782)	168,269	14,750
Total Business-type Activities	\$ 163,030	\$ 38,021	\$ (32,782)	\$ 168,269	\$ 14,750

The governmental activities liabilities will be liquidated from the general fund. The business-type liabilities will be liquidated by the water enterprise fund.

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2017:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities</u>					
General Obligation Bonds	2.0 - 4.0%	\$ 490,000	\$ -	\$ (70,000)	\$ 420,000
Redfunding Bonds	2.00%	4,580,000	-	(535,000)	4,045,000
Total Governmental Activities		5,070,000	-	(605,000)	4,465,000
Add: Unamortized Premium		153,584	-	(35,267)	118,317
Total Governmental Activities, net		\$ 5,223,584	\$ -	\$ (640,267)	\$ 4,583,317
<u>Business-Type Activities</u>					
State House Notes	6.50%	\$ 44,250	\$ -	\$ (14,750)	\$ 29,500
Total Business-Type Activities		\$ 44,250	\$ -	\$ (14,750)	\$ 29,500

Payments on outstanding bonds and notes due in future years consist of the following:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 615,000	\$ 83,150	\$ 698,150
2019	625,000	70,750	695,750
2020	635,000	58,150	693,150
2021	650,000	45,300	695,300
2022	660,000	32,200	692,200
2023 - 2024	1,280,000	25,000	1,305,000
Total	<u>\$ 4,465,000</u>	<u>\$ 314,550</u>	<u>\$ 4,779,550</u>

Year Ending June 30,	Business-type Activities - Water		
	Principal	Interest	Total
2018	\$ 14,750	\$ 1,918	\$ 16,668
2019	14,750	959	15,709
Total	<u>\$ 29,500</u>	<u>\$ 2,877</u>	<u>\$ 32,377</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Bristol County Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under MGL Chapter 32 and is administered by the Bristol County Retirement Board (BCRB). Stand-alone audited financial statements for the year ended December 31, 2015 were issued and may be obtained by writing to the Bristol County Retirement System, 645 County Street, Taunton, MA 02780.

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

Retirees and beneficiaries currently receiving benefits	2,119
Active plan members	3,193
Disabled plan members	274
Inactive plan members	<u>672</u>
Total	<u>6,258</u>

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

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

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

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

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

The Town contributed \$737,668 to the System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town’s contributions as a percentage of covered payroll was approximately 21.8% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$8,541,182 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System’s benefit terms since the actuarial valuation.

The Town’s proportion of the net pension liability is based on a projection of the Town’s long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town’s proportion was approximately 2.558% at December 31, 2016, which was consistent with the proportion measured at January 1, 2016.

Pension Expense – The Town recognized \$1,341,889 in pension expense in the statement of activities in fiscal year 2017.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 348,770	\$ -
Net difference between projected and actual earnings on pension plan investments	1,102,986	-
Changes in proportion and difference between Town contributions and proportionate share of contributions	725,587	118,156
Changes of assumptions	-	204,836
Total	<u>\$ 2,177,343</u>	<u>\$ 322,992</u>

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

<u>Year ended June 30,</u>	
2018	\$ 680,895
2019	680,895
2020	466,205
2021	26,356
Total	<u>\$ 1,854,351</u>

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

Actuarial cost method:	Individual entry age normal
Amortization method:	Payments increasing at 4.5%
Remaining amortization period:	13 years
Asset valuation method:	Market value as reported by PERAC
Investment rate of return:	7.75%
Projected salary increases:	2.75% to 5.5% per year
Cost of living adjustments:	3% of the lesser of the pension amount and \$18,000 per year
Mortality rates:	Pre-retirement rates reflect the RP-2014 Blue Collar Mortality Table with scale MP-2014, fully generational. The post-retirement rates reflect the RP-2000 Mortality Table, fully generational. For Group 1 & 2 retirees, the mortality tables are set forward five years for males and three years for females. Group 4 retiree tables are set forward three years for males and six years for females.
Disabled life mortality:	RP-2000 Healthy Annuitant Mortality Table set forward six years and two years for group 1 and 2 and group 4, respectively.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocations and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	46.5%	7.8%
Fixed income	24.5%	5.0%
Private equity	8.5%	11.3%
Real estate funds	7.5%	6.3%
Hedge funds	5.0%	7.1%
Infrastructure	5.0%	8.0%
Timber	3.0%	7.5%

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount (7.75%)</u>	<u>1% Increase (8.75%)</u>
Town’s proportionate share of the net pension liability	\$11,723	\$8,541	\$6,290

B. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium based health care plans for its active employees and retirees, as well as its workers’ compensation and unemployment activities. Settlements have not exceeded coverage for each of the past three fiscal years.

C. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a cost sharing single-employer defined benefit healthcare plan (the “Plan”). The Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B Section 20. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program described

previously. The Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

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

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

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

Inactive employees or beneficiaries currently receiving benefits	118
Active employees	64
Total	<u>182</u>

Contributions – The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees contribute 10 – 20 percent of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis plus additional contributions of \$200,000 annually. The costs of administering the Plan are paid by the Town.

Investments – The investment policy for Plan assets is that used for all the Town’s other trust funds; this requires the Town Treasurer to invest in instruments included on the State legal list.

Investment Concentration - The Plan did not maintain investments in any one organization that represented more than 5% of the Fiduciary Net Position of the Plan.

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was less than 1.0 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Asset Class	Target Allocation
Domestic Equity - Large Cap	0.00%
Domestic Equity - Small/Mid Cap	0.00%
International Equity - Developed Market	0.00%
International Equity - Emerging Market	0.00%
Domestic Fixed Income	0.00%
International Fixed Income	0.00%
Alternatives	0.00%
Real Estate	0.00%
Cash	100.00%
	100.00%

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

Total OPEB liability	\$ 18,928,938
Plan Fiduciary Net Position	(367,697)
Net OPEB liability	\$ 18,561,241

Plan Fiduciary Net Position as
a percentage of total liability 1.9%

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

Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation.
Single Equivalent Discount Rate	3.25%, net of OPEB plan investment expense including inflation.
Inflation	2.75% annually as of June 30, 2017 and for future periods.
Salary Increases	3.00% annually as of June 30, 2017 and for future periods.
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

Changes in Assumptions: Effective June 30, 2017- There were no changes in assumptions made as compared to the actuarial valuation used in prior years:

Investment Rate of Return - The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

Discount rate - The discount rate used to measure the total OPEB liability was 3.25 percent. This was a blended rate of (1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments and are invested using a strategy to achieve that return and; (2) a yield rate for a 20 year, tax exempt general obligation municipal bond with an average rating of AA/Aa or higher when the conditions in (1) are not met.

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

	Current		
	1% Decrease (2.25%)	Discount Rate (3.25%)	1% Increase (4.25%)
Net OPEB Liability	\$ 21,354,851	\$ 18,561,241	\$ 16,285,026
Service Cost	478,890	360,946	274,241

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

	Healthcare		
	1% Decrease (4%)	Trend Rate (5%)	1% Increase (6%)
Net OPEB Liability	\$ 15,858,238	\$ 18,561,241	\$ 21,922,781
Service Cost	262,476	360,946	499,329

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

The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contribution (ARC)	\$ 1,048,674
Interest on net OPEB obligation	215,186
Adjustment to ARC	(299,140)
Amortization of actuarial (gains)/losses	<u>287,016</u>
Annual OPEB cost	1,251,736
Contributions made	<u>(776,313)</u>
Increase in net OPEB obligation	475,423
Net OPEB obligation at beginning of year	<u>5,379,671</u>
Net OPEB obligation at end of year	<u><u>\$ 5,855,094</u></u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2017	\$ 1,251,736	62%	\$ 5,855,094
June 30, 2016	\$ 1,218,314	63%	\$ 5,379,671
June 30, 2015	\$ 1,186,852	64%	\$ 4,924,478

The annual OPEB cost of \$1,251,737 was allocated to functional items as follows:

General Government	\$	194,960
Public Safety		651,702
Education		238,292
Public Works		105,459
Health and Human Services		40,643
Culture and Recreation		20,681
	\$	<u>1,251,737</u>

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2017 for the most recent actuarial valuation performed as of July 1, 2014, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
\$ 0.4	\$ 16.7	\$ 16.3	2.4%	N/A	N/A

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

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

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

Valuation date	June 30, 2017
Actuarial cost method	Individual Entry Age
Amortization method	Level Percent of Payroll
Remaining amortization period	30 years
Interest discount rate	3.25%
Inflation rate	2.75%
Healthcare/Medical cost trend rate	5.00%
Salaries	3.00%

D. Commitments and Contingencies

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

Grant Compliance – Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

E. Tax Abatements

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

The Town has two such agreements for which the assessed value of the related properties have been reduced by a percentage between 20 and 70 percent of the incremental assessed value. For the fiscal year ended June 30, 2017, the Town's total tax revenues were reduced by approximately \$0.5 million as a result of these tax abatement agreements.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$295,993 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making

decisions and assessing accountability. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 74 had a material effect on the Town.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 77 had a material effect on the footnote disclosures of the Town.

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

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

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

Future Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town believes the adoption of this GASB will have a material impact on the financial statements.

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

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial

reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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

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

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

TOWN OF FREETOWN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2017

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollar amounts are in thousands)

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	2.558%	2.558%	2.185%
Town's proportionate share of the net pension liability (asset)	\$ 8,541	\$ 8,607	\$ 5,892
Town's covered-employee payroll	\$ 3,382	\$ 3,277	\$ 3,101
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	252.5%	262.6%	190.0%
Plan fiduciary net position as a percentage of the total pension liability	64.2%	62.9%	67.1%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 738	\$ 731	\$ 796
Contributions in relation to the actuarially determined contribution	<u>738</u>	<u>731</u>	<u>796</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 3,382	\$ 3,277	\$ 3,101
Contributions as a percentage of covered-employee payroll	21.8%	22.3%	25.7%

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

See accompanying independent auditors' report.

TOWN OF FREETOWN, MASSACHUSETTS

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

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2014	\$ 367,698	\$ 16,695,383	\$ 16,327,685	2.2%	N/A	N/A
7/1/2011	-	14,591,426	14,591,426	0.0%	N/A	N/A
7/1/2008	-	13,962,026	13,962,026	0.0%	4,359,904	320.2%

SCHEDULE OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2016	\$ 1,048,674	\$ 776,313	74.0%
2015	1,018,871	764,995	75.1%
2014	1,049,306	627,594	59.8%
2013	1,049,111	608,155	58.0%
2012	1,049,920	564,886	53.8%
2011	1,448,355	434,712	30.0%

See accompanying independent auditors' report.

TOWN OF FREETOWN, MASSACHUSETTS

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

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

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 340,977
Interest	608,144
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	<u>(776,420)</u>
Net change in total OPEB liability	172,701
Total OPEB liability - beginning of year	<u>18,756,237</u>
Total OPEB liability - end of year (a)	<u><u>\$ 18,928,938</u></u>
Plan fiduciary net position:	
Contributions - employer	\$ 976,420
Net investment income	333
Benefit payments	(776,420)
Administrative expenses	-
Other	-
Net change in Plan fiduciary net position	<u>200,333</u>
Plan fiduciary net position - beginning of year	<u>167,364</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 367,697</u></u>
Net OPEB liability - end of year (a) - (b)	<u><u>\$ 18,561,241</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.94%
Covered-employee payroll	\$ 3,716,108
Net OPEB liability as a percentage of covered- employee payroll	499.48%

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

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

See independent auditors' report.

TOWN OF FREETOWN, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEARS ENDED JUNE 30, 2017**

**SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	<u>2017</u>
Actuarially-determined contribution	\$ 1,288,036
Contributions in relation to the actuarially-determined contribution	<u>(976,420)</u>
Contribution (deficiency)	<u>\$ (311,616)</u>
Covered-employee payroll	\$ 3,716,108
Contribution as a percentage of covered-employee payroll	26.3%
Valuation Date	June 30, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Period	30 years
Asset Valuation Method	Market Value of Assets as of Reporting Date
Inflation	2.75%
Healthcare cost trend rates	5.00%
Salary increases	3.00%
Investment rate of return	2.75%

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

	<u>2017</u>
Annual money-weighted rate of return, net of	0.00%

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

See independent auditors' report.

TOWN OF FREETOWN, MASSACHUSETTS

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

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 17,772,070	\$ 18,034,589	\$ 18,625,820	\$ -	\$ 18,625,820	\$ 591,231
Intergovernmental	2,240,330	2,240,330	2,219,791	-	2,219,791	(20,539)
Motor vehicle and other excises	1,551,000	1,551,000	1,869,533	-	1,869,533	318,533
License and permits	300,000	300,000	441,107	-	441,107	141,107
Departmental and other revenue	887,596	887,596	1,049,048	-	1,049,048	161,452
Penalties and interest on taxes	50,000	50,000	202,262	-	202,262	152,262
Fines and forfeitures	10,000	10,000	39,379	-	39,379	29,379
Investment income	1,000	1,000	3,575	-	3,575	2,575
Total Revenues	<u>22,811,996</u>	<u>23,074,515</u>	<u>24,450,515</u>	<u>-</u>	<u>24,450,515</u>	<u>1,376,000</u>
EXPENDITURES						
General government	1,913,793	1,769,926	1,315,979	119,783	1,435,762	334,164
Public safety	3,891,195	4,775,726	3,743,738	755,256	4,498,994	276,732
Education	11,404,829	11,412,449	11,182,424	-	11,182,424	230,025
Public works	1,407,597	1,461,304	1,586,714	49,075	1,635,789	(174,485)
Health and human services	418,159	418,159	357,135	-	357,135	61,024
Culture and recreation	147,896	147,896	124,567	15,700	140,267	7,629
State and county tax assessments	255,376	255,376	256,695	-	256,695	(1,319)
Pension and other fringe benefits	2,378,907	2,378,907	2,236,736	26,256	2,262,992	115,915
Court judgments	-	-	-	-	-	-
Debt service	718,850	718,850	703,819	-	703,819	15,031
Total Expenditures	<u>22,536,602</u>	<u>23,338,593</u>	<u>21,507,807</u>	<u>\$ 966,070</u>	<u>22,473,877</u>	<u>864,716</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	70,684	140,884	138,001	-	138,001	(2,883)
Transfers out	(640,000)	(1,712,728)	(1,712,728)	-	(1,712,728)	-
Total Other Financing Sources (Uses)	<u>(569,316)</u>	<u>(1,571,844)</u>	<u>(1,574,727)</u>		<u>(1,574,727)</u>	<u>(2,883)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(293,922)</u>	<u>(1,835,922)</u>	<u>\$ 1,367,981</u>		<u>\$ 401,911</u>	<u>\$ 2,237,833</u>
Other Budgetary Items:						
Undesignated surplus (free cash)	-	1,542,000				
Prior year encumbrances	439,020	439,020				
Prior year snow and ice deficit	(145,098)	(145,098)				
Other amounts raised	-	-				
	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditor's report.
 See accompanying notes to required supplementary information.

TOWN OF FREETOWN, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2017, Town Meeting approved approximately \$1.9 million in additional departmental appropriations and transfers from the original approved budget.

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

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

	<u>Basis of Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenues on a budgetary basis			\$ 24,450,515
Stabilization investment income	\$ -	\$ 25,977	25,977
Revenues on a GAAP basis	<u>\$ -</u>	<u>\$ 25,977</u>	<u>\$ 24,476,492</u>
Expenditures on a budgetary basis			\$ 21,507,807
Other postemployment benefit trust contribution	-	\$ 200,000	200,000
Indirect cost transfers reclassified as expenditures	\$ (63,301)	\$ -	(63,301)
Expenditures on a GAAP basis	<u>\$ (63,301)</u>	<u>\$ -</u>	<u>\$ 21,644,506</u>
Other financing sources (uses) on a budgetary basis			\$ (1,574,727)
Stabilization transfers	\$ -	\$ 624,100	624,100
Other postemployment benefit trust transfers		200,000	200,000
Indirect cost transfers reclassified as expenditures	(63,301)	-	(63,301)
Other financing sources (uses) on a GAAP basis	<u>\$ (63,301)</u>	<u>\$ 824,100</u>	<u>\$ (813,928)</u>

Appropriation Deficits – During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice costs by \$219,424. This over-expenditure will be funded through available funds during fiscal year 2018.



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

The Honorable Members of the Board of Selectmen
Town of Freetown, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Freetown, Massachusetts (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 14, 2017