

TOWN OF LYNNFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

Town of Lynnfield, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Lynnfield, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 58 to 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018 on our consideration of the Town's internal control over

financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Town's internal control over financial reporting and compliance.

Melanson Heath

January 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$15,564,487 (i.e., net position), a change of \$(3,636,497) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$16,216,960, a change of \$3,611,234 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,684,933, a change of \$(86,437) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 20,115	\$ 18,306	\$ 622	\$ 375	\$ 20,737	\$ 18,681
Capital assets	<u>74,621</u>	<u>75,396</u>	<u>13,364</u>	<u>13,356</u>	<u>87,985</u>	<u>88,752</u>
Total assets	94,736	93,702	13,986	13,731	108,722	107,433
Deferred outflows	2,642	1,532	-	-	2,642	1,532
Current liabilities	5,608	7,109	751	735	6,359	7,844
Noncurrent liabilities	<u>83,255</u>	<u>75,692</u>	<u>5,194</u>	<u>5,823</u>	<u>88,449</u>	<u>81,515</u>
Total liabilities	88,863	82,801	5,945	6,558	94,808	89,359
Deferred inflows	991	406	-	-	991	406
Net position:						
Net investment in capital assets	57,856	56,794	7,548	6,936	65,404	63,730
Restricted	6,579	6,444	-	-	6,579	6,444
Unrestricted	<u>(56,911)</u>	<u>(51,211)</u>	<u>493</u>	<u>237</u>	<u>(56,418)</u>	<u>(50,974)</u>
Total net position	<u>\$ 7,524</u>	<u>\$ 12,027</u>	<u>\$ 8,041</u>	<u>\$ 7,173</u>	<u>\$ 15,565</u>	<u>\$ 19,200</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$15,564,488, a change of \$(3,636,496) from the prior year.

The largest portion of net position \$65,403,387 reflects our investment in capital assets (e.g., land and construction in progress, land improvements, buildings and improvements, machinery, equipment and furnishings, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$6,578,942 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit balance of \$(56,417,842) resulting from unfunded pension and OPEB liabilities (see Notes 20 and 22).

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,104	\$ 3,472	\$ 1,789	\$ 1,446	\$ 4,893	\$ 4,918
Operating grants and contributions	12,295	10,401	-	-	12,295	10,401
Capital grants and contributions	551	423	-	-	551	423
General revenues:						
Property taxes	42,206	40,121	-	-	42,206	40,121
Excises	3,432	3,406	-	-	3,432	3,406
Penalties and interest on taxes	679	667	-	-	679	667
Grants and contributions not restricted to specific programs	1,126	1,079	-	-	1,126	1,079
Investment income	32	50	-	1	32	51
Other	1,086	100	-	-	1,086	100
Total revenues	<u>64,511</u>	<u>59,719</u>	<u>1,789</u>	<u>1,447</u>	<u>66,300</u>	<u>61,166</u>
Expenses:						
General government	3,400	2,473	-	-	3,400	2,473
Public safety	6,346	4,670	-	-	6,346	4,670
Education	46,748	34,187	-	-	46,748	34,187
Public works	8,441	6,783	-	-	8,441	6,783
Health and human services	828	599	-	-	828	599
Culture and recreation	1,497	1,290	-	-	1,497	1,290
¹ Employee benefits	-	11,821	-	-	-	11,821
Interest on long-term debt	573	612	-	-	573	612
Intergovernmental	365	375	-	-	365	375
Golf course	-	-	1,087	1,037	1,087	1,037
Emergency medical services	-	-	672	708	672	708
Total expenses	<u>68,198</u>	<u>62,810</u>	<u>1,759</u>	<u>1,745</u>	<u>69,957</u>	<u>64,555</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
Change in net position before transfers and permanent fund contributions	(3,687)	(3,091)	30	(298)	(3,657)	(3,389)
Transfers in (out)	(838)	(1,249)	838	1,049	-	(200)
Permanent fund contributions	<u>22</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>16</u>
Change in net position	(4,503)	(4,324)	868	751	(3,635)	(3,573)
Net position - beginning of year	<u>12,027</u>	<u>16,351</u>	<u>7,173</u>	<u>6,422</u>	<u>19,200</u>	<u>22,773</u>
Net position - end of year	<u>\$ 7,524</u>	<u>\$ 12,027</u>	<u>\$ 8,041</u>	<u>\$ 7,173</u>	<u>\$ 15,565</u>	<u>\$ 19,200</u>

1 Employee benefits allocated to other functions in 2017.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(4,503,927). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,684,214
Major capital project fund change in fund balance (accrual basis)	1,243,480
Nonmajor funds change in fund balance (accrual basis)	439,619
Depreciation expense in excess of principal debt service	(1,490,624)
Change in other post-employment benefit obligation	(6,234,370)
Change in net pension liability	(1,508,207)
Other revenue and expense accruals	<u>1,361,961</u>
Total	<u>\$ (4,503,927)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$867,430. Key elements of this change are as follows:

Golf course operations	\$ 629,184
Emergency medical services operations	<u>238,246</u>
Total	<u>\$ 867,430</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$16,216,960, a change of \$3,611,234 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance (explained in more detail below)	\$ 1,684,214
Major capital project fund change in fund balance	935,000
Nonmajor funds change in fund balance	<u>992,020</u>
Total	<u><u>\$ 3,611,234</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,684,933, while total fund balance was \$9,811,634. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,684,933	\$ 5,771,370	\$ (86,437)	10.0%
Total fund balance	\$ 9,811,634	\$ 8,127,420	\$ 1,684,214	17.3%

The total fund balance of the general fund changed by \$1,684,214 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 528,614
Expenditures less than budget	1,187,031
Use of free cash as a funding source	(1,472,000)
Prior year encumbrances less than current year encumbrances	393,908
Change in stabilization funds balance	491,041
Prior year snow & ice deficit raised	117,499
Other	<u>438,121</u>
Total	<u><u>\$ 1,684,214</u></u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization fund	\$ 1,531,875	\$ 1,335,050	\$ 196,825
Capital facilities maintenance fund	1,124,109	926,100	198,009
Recreation capital trust fund	<u>157,656</u>	<u>61,449</u>	<u>96,207</u>
Total	<u>\$ 2,813,640</u>	<u>\$ 2,322,599</u>	<u>\$ 491,041</u>

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

Unrestricted net position of the proprietary funds at the end of the year amounted to \$492,760, a change of \$256,022 in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$62,000. The major reason for this amendment is to supplement various amounts in the budget where balances were below projected expenditures.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$87,985,243 (net of accumulated depreciation). This investment in capital assets includes land and construction in progress, land improvements, buildings and building improvements, machinery, equipment and furnishings, and infrastructure assets.

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

- \$71,580 for golf course renovations.
- \$482,442 of construction in progress for outdoor recreational and athletic facilities and other projects.
- \$1,161,088 for various building improvements and departmental machinery, equipment, and furnishings, including public safety and highway vehicles, and school technology equipment.
- \$895,495 for various road improvements.
- Depreciation expense of \$(3,378,141).

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

Credit rating. As of June 30, 2017, the Town's Standard & Poor's credit rating is AA+/Stable.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$22,798,941, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Office of Asst. Finance Director/Town Accountant
Town of Lynnfield, Massachusetts
55 Summer Street
Lynnfield, Massachusetts 01940

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 15,003,764	\$ 410,411	\$ 15,414,175
Investments	3,525,171	-	3,525,171
Receivables, net of allowance for uncollectibles:			
Property taxes	432,850	-	432,850
Excises	157,004	-	157,004
User fees	-	211,437	211,437
Departmental and other	9,270	-	9,270
Intergovernmental	545,837	-	545,837
Betterments	11,479	-	11,479
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	305,093	-	305,093
Betterments	124,955	-	124,955
Capital assets			
Land and construction in progress	9,007,989	12,762,258	21,770,247
Other capital assets, net of accumulated depreciation	65,613,506	601,490	66,214,996
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>2,641,558</u>	<u>-</u>	<u>2,641,558</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	97,378,476	13,985,596	111,364,072
LIABILITIES			
Current:			
Warrants and accounts payable	798,054	41,487	839,541
Accrued liabilities	690,970	80,840	771,810
Tax refunds payable	740,819	-	740,819
Notes payable	470,903	-	470,903
Other current liabilities	659,602	-	659,602
Current portion of long-term liabilities:			
Bonds payable	1,964,093	629,000	2,593,093
Other liabilities	284,021	-	284,021
Noncurrent:			
Bonds payable, net of current portion	15,065,087	5,194,000	20,259,087
Net pension liability	30,649,501	-	30,649,501
Net OPEB obligation	36,994,752	-	36,994,752
Other, net of current portion	545,385	-	545,385
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	854,637	-	854,637
Other	<u>136,434</u>	<u>-</u>	<u>136,434</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
	89,854,258	5,945,327	95,799,585
NET POSITION			
Net investment in capital assets	57,855,878	7,547,509	65,403,387
Restricted for:			
Grants and other statutory restrictions	5,640,332	-	5,640,332
Permanent funds:			
Nonexpendable	904,975	-	904,975
Expendable	33,635	-	33,635
Unrestricted	<u>(56,910,602)</u>	<u>492,760</u>	<u>(56,417,842)</u>
TOTAL NET POSITION	<u>\$ 7,524,218</u>	<u>\$ 8,040,269</u>	<u>\$ 15,564,487</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	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
Governmental Activities:							
General government	\$ 3,399,507	\$ 270,014	\$ 518,053	\$ -	\$ (2,611,440)	\$ -	\$ (2,611,440)
Public safety	6,345,717	372,131	74,181	-	(5,899,405)	-	(5,899,405)
Education	46,749,239	2,041,251	11,413,091	-	(33,294,897)	-	(33,294,897)
Public works	8,441,244	85,232	228,421	550,612	(7,576,979)	-	(7,576,979)
Health and human services	828,016	96,797	28,568	-	(702,651)	-	(702,651)
Culture and recreation	1,496,611	238,159	32,722	-	(1,225,730)	-	(1,225,730)
Interest	573,441	-	-	-	(573,441)	-	(573,441)
Intergovernmental	364,845	-	-	-	(364,845)	-	(364,845)
Total Governmental Activities	68,198,620	3,103,584	12,295,036	550,612	(52,249,388)	-	(52,249,388)
Business-Type Activities:							
Golf course	1,087,534	878,376	-	-	-	(209,158)	(209,158)
Emergency medical services	672,727	910,870	-	-	-	238,143	238,143
Total Business-Type Activities	1,760,261	1,789,246	-	-	-	28,985	28,985
Total	\$ 69,958,881	\$ 4,892,830	\$ 12,295,036	\$ 550,612	(52,249,388)	28,985	(52,220,403)
General Revenues, Transfers, and Contributions:							
Property taxes					42,206,263	-	42,206,263
Excises					3,431,592	-	3,431,592
Penalties, interest and other taxes					678,974	-	678,974
Grants and contributions not restricted to specific programs					1,126,084	-	1,126,084
Investment income					32,409	678	33,087
Proceeds from sale of land					935,000	-	935,000
Miscellaneous					151,306	-	151,306
Transfers, net					(837,767)	837,767	-
Permanent fund contributions					21,600	-	21,600
Total general revenues, transfers, and contributions					47,745,461	838,445	48,583,906
Change in Net Position					(4,503,927)	867,430	(3,636,497)
Net Position:							
Beginning of year					12,028,145	7,172,839	19,200,984
End of year					\$ 7,524,218	\$ 8,040,269	\$ 15,564,487

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

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Sale of Real Estate	Center Farm Acquisition	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 9,443,552	\$ 2,480,754	\$ -	\$ 3,079,458	\$ 15,003,764
Investments	2,641,942	-	-	883,229	3,525,171
Receivables:					
Property taxes	810,349	-	-	-	810,349
Excises	190,990	-	-	-	190,990
Departmental and other	9,270	-	-	-	9,270
Intergovernmental	61,045	-	-	484,792	545,837
TOTAL ASSETS	\$ 13,157,148	\$ 2,480,754	\$ -	\$ 4,447,479	\$ 20,085,381
LIABILITIES					
Warrants payable	\$ 746,051	\$ -	\$ -	\$ 52,004	\$ 798,055
Accrued liabilities	441,521	-	-	-	441,521
Tax refunds payable	740,820	-	-	-	740,820
Notes payable	-	-	470,903	-	470,903
Other liabilities	659,602	-	-	-	659,602
TOTAL LIABILITIES	2,587,994	-	470,903	52,004	3,110,901
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	757,520	-	-	-	757,520
FUND BALANCES					
Nonspendable	-	-	-	904,975	904,975
Restricted	-	2,480,754	-	3,525,432	6,006,186
Committed	1,239,590	-	-	-	1,239,590
Assigned	2,887,111	-	-	-	2,887,111
Unassigned	5,684,933	-	(470,903)	(34,932)	5,179,098
TOTAL FUND BALANCES	9,811,634	2,480,754	(470,903)	4,395,475	16,216,960
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 13,157,148	\$ 2,480,754	\$ -	\$ 4,447,479	\$ 20,085,381

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

TOWN OF LYNNFIELD, MASSACHUSETTS

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

JUNE 30, 2017

Total governmental fund balances	\$ 16,216,960
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	74,621,495
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	651,130
• Long-term liabilities, including bonds payable, net OPEB obligation, and net pension liability are not due and payable in the current period; therefore, they are not reported in the governmental funds.	(85,502,839)
• Other	<u>1,537,472</u>
Net position of governmental activities	<u>\$ 7,524,218</u>

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

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

	General Fund	Sale of Real Estate	Center Farm Acquisition	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 42,260,027	\$ -	\$ -	\$ -	\$ 42,260,027
Excises	3,428,366	-	-	-	3,428,366
Penalties, interest and other taxes	88,782	-	-	39,847	128,629
Payments in lieu of taxes	550,345	-	-	-	550,345
Charges for services	391,991	-	-	2,262,072	2,654,063
Intergovernmental	11,215,933	-	-	2,015,886	13,231,819
Licenses and permits	450,425	-	-	-	450,425
Fines and forfeitures	60,894	-	-	-	60,894
Investment income	27,972	-	-	1,115	29,087
Miscellaneous	134,408	-	-	715,098	849,506
Total Revenues	58,609,143	-	-	5,034,018	63,643,161
Expenditures:					
Current:					
General government	2,401,866	-	-	480,021	2,881,887
Public safety	4,910,735	-	-	552,021	5,462,756
Education	32,042,956	-	-	3,088,372	35,131,328
Public works	7,262,241	-	-	692,492	7,954,733
Health and human services	487,518	-	-	68,217	555,735
Culture and recreation	889,457	-	-	304,381	1,193,838
Employee benefits	5,910,860	-	-	-	5,910,860
Debt service	2,401,853	-	-	-	2,401,853
Intergovernmental	364,845	-	-	-	364,845
Total Expenditures	56,672,331	-	-	5,185,504	61,857,835
Excess (deficiency) of revenues over expenditures	1,936,812	-	-	(151,486)	1,785,326
Other Financing Sources (Uses):					
Issuance of bonds	-	-	-	1,671,000	1,671,000
Bond premium	-	-	-	57,675	57,675
Transfers in	995,040	-	-	9,871	1,004,911
Transfers out	(1,247,638)	-	-	(595,040)	(1,842,678)
Total Other Financing Sources (Uses)	(252,598)	-	-	1,143,506	890,908
Special Items					
Proceeds from sale of land	-	-	935,000	-	935,000
Total Special Items	-	-	935,000	-	935,000
Change in fund balance	1,684,214	-	935,000	992,020	3,611,234
Fund Balance, at Beginning of Year as reclassified	8,127,420	2,480,754	(1,405,903)	3,403,455	12,605,726
Fund Balance, at End of Year	\$ 9,811,634	\$ 2,480,754	\$ (470,903)	\$ 4,395,475	\$ 16,216,960

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

TOWN OF LYNNFIELD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - total governmental funds	\$ 3,611,234																		
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 20px;">Capital outlay</td> <td style="text-align: right;">2,495,474</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(3,313,969)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 20px;">Issuance of debt</td> <td style="text-align: right;">(1,671,000)</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">1,798,641</td> </tr> <tr> <td style="padding-left: 20px;">Change in net pension liability</td> <td style="text-align: right;">(1,508,207)</td> </tr> <tr> <td style="padding-left: 20px;">Change in net OPEB liability</td> <td style="text-align: right;">(6,234,370)</td> </tr> <tr> <td style="padding-left: 20px;">Other</td> <td style="text-align: right;">(118,117)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td style="padding-left: 20px;"></td> <td style="text-align: right;">(75,687)</td> </tr> </table> • Other differences <table> <tr> <td style="padding-left: 20px;"></td> <td style="text-align: right;"><u>512,074</u></td> </tr> </table> 		Capital outlay	2,495,474	Depreciation	(3,313,969)	Issuance of debt	(1,671,000)	Repayments of debt	1,798,641	Change in net pension liability	(1,508,207)	Change in net OPEB liability	(6,234,370)	Other	(118,117)		(75,687)		<u>512,074</u>
Capital outlay	2,495,474																		
Depreciation	(3,313,969)																		
Issuance of debt	(1,671,000)																		
Repayments of debt	1,798,641																		
Change in net pension liability	(1,508,207)																		
Change in net OPEB liability	(6,234,370)																		
Other	(118,117)																		
	(75,687)																		
	<u>512,074</u>																		
Change in net position of governmental activities	\$ <u><u>(4,503,927)</u></u>																		

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

TOWN OF LYNNFIELD, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 41,822,218	\$ 41,822,218	\$ 41,822,218	\$ -
Excise taxes	3,175,000	3,175,000	3,416,166	241,166
Penalties, interest and other taxes	86,000	86,000	88,782	2,782
Payments in lieu of taxes	484,000	484,000	550,345	66,345
Charges for services	384,800	384,800	392,991	8,191
Intergovernmental	5,374,593	5,374,593	5,518,377	143,784
Licenses and permits	425,000	425,000	450,425	25,425
Fines and forfeitures	85,000	85,000	60,894	(24,106)
Investment income	17,200	17,200	45,570	28,370
Miscellaneous	-	-	36,657	36,657
Transfers in	595,040	595,040	595,040	-
Use of free cash	1,410,000	1,472,000	1,472,000	-
Total Revenues and Other Sources	53,858,851	53,920,851	54,449,465	528,614
Expenditures and Other Uses:				
General government	2,941,783	2,637,169	2,306,747	330,422
Public safety	4,852,354	5,217,154	4,961,068	256,086
Education	26,506,596	26,501,516	26,414,248	87,268
Public works	7,750,438	7,867,728	7,646,774	220,954
Health and human services	447,883	514,254	495,846	18,408
Culture and recreation	867,111	905,189	891,146	14,043
Employee benefits	6,086,165	5,951,381	5,710,860	240,521
Miscellaneous	117,499	117,499	117,499	-
Debt service	3,298,159	3,218,098	3,214,916	3,182
Intergovernmental	380,992	380,992	364,845	16,147
Transfers out	609,871	609,871	609,871	-
Total Expenditures and Other Uses	53,858,851	53,920,851	52,733,820	1,187,031
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,715,645	\$ 1,715,645

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Golf Course Fund	Nonmajor Emergency Medical Services Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 171,120	\$ 239,291	\$ 410,411
User fee receivables, net of allowance	<u>-</u>	<u>211,437</u>	<u>211,437</u>
Total current assets	171,120	450,728	621,848
Noncurrent:			
Land and construction in progress	12,762,258	-	12,762,258
Capital assets, net of accumulated depreciation	<u>484,497</u>	<u>116,993</u>	<u>601,490</u>
Total noncurrent assets	<u>13,246,755</u>	<u>116,993</u>	<u>13,363,748</u>
TOTAL ASSETS	13,417,875	567,721	13,985,596
LIABILITIES			
Current:			
Warrants and accounts payable	41,247	240	41,487
Accrued liabilities	80,840	-	80,840
Current portion of long-term liabilities:			
Bonds payable	<u>629,000</u>	<u>-</u>	<u>629,000</u>
Total current liabilities	751,087	240	751,327
Noncurrent:			
Bonds payable, net of current portion	<u>5,194,000</u>	<u>-</u>	<u>5,194,000</u>
Total noncurrent liabilities	<u>5,194,000</u>	<u>-</u>	<u>5,194,000</u>
TOTAL LIABILITIES	5,945,087	240	5,945,327
NET POSITION			
Net investment in capital assets	7,430,516	116,993	7,547,509
Unrestricted	<u>42,272</u>	<u>450,488</u>	<u>492,760</u>
TOTAL NET POSITION	\$ <u>7,472,788</u>	\$ <u>567,481</u>	\$ <u>8,040,269</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Golf Course Fund	Nonmajor Emergency Medical Services Fund	Total
Operating Revenues:			
Charges for services	\$ 878,376	\$ 910,870	\$ 1,789,246
Total Operating Revenues	878,376	910,870	1,789,246
Operating Expenses:			
Salaries and benefits	549,423	512,448	1,061,871
Other operating expenses	284,991	122,282	407,273
Depreciation	26,175	37,997	64,172
Total Operating Expenses	860,589	672,727	1,533,316
Operating Income (Loss)	17,787	238,143	255,930
Nonoperating Revenues (Expenses):			
Investment income	575	103	678
Interest expense	(226,945)	-	(226,945)
Total Nonoperating Revenues (Expenses), Net	(226,370)	103	(226,267)
Income (Loss) before transfers	(208,583)	238,246	29,663
Transfers:			
Operating transfers in	837,767	-	837,767
Total transfers	837,767	-	837,767
Change in Net Position	629,184	238,246	867,430
Net Position at Beginning of Year	6,843,604	329,235	7,172,839
Net Position at End of Year	\$ 7,472,788	\$ 567,481	\$ 8,040,269

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	
	Golf Course Fund	Nonmajor Emergency Medical Services Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 878,376	\$ 830,796
Payments to employees and vendors	<u>(841,468)</u>	<u>(636,265)</u>
Net Cash Provided By (Used For) Operating Activities	36,908	194,531
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition of capital assets	(71,580)	-
Transfers from general fund	837,767	-
Principal payments on bonds	(604,000)	-
Interest expense	<u>(226,945)</u>	<u>-</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(64,758)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>575</u>	<u>103</u>
Net Cash Provided By (Used For) Investing Activities	<u>575</u>	<u>103</u>
Net Change in Cash and Short-Term Investments	(27,275)	194,634
Cash and Short-Term Investments, Beginning of Year	<u>198,395</u>	<u>44,657</u>
Cash and Short-Term Investments, End of Year	<u>\$ 171,120</u>	<u>\$ 239,291</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>		
Operating income (loss)	\$ 17,787	\$ 238,143
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	26,175	37,997
Changes in assets and liabilities:		
Accounts receivable	-	(80,074)
Warrants and accounts payable	8,642	(1,535)
Accrued liabilities	<u>(15,696)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 36,908</u>	<u>\$ 194,531</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Other Post Employment Benefits <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS			
Cash and short term investments	\$ 1,733	\$ 8,330	\$ 22,635
Investments	633,208	176,237	-
Accounts receivable	<u>-</u>	<u>-</u>	<u>71,352</u>
Total Assets	634,941	184,567	93,987
LIABILITIES AND NET POSITION			
Warrants payable	-	-	3,690
Other liabilities	<u>-</u>	<u>-</u>	<u>90,297</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>93,987</u>
NET POSITION			
Restricted for endowment	-	154,713	-
Restricted for benefits and other purposes	<u>634,941</u>	<u>29,854</u>	<u>-</u>
Total net position held in trust	<u>\$ 634,941</u>	<u>\$ 184,567</u>	<u>\$ -</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Other Post Employment Benefits <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employers	\$ 2,201,110	\$ -
Other	<u>-</u>	<u>26</u>
Total contributions	2,201,110	26
Investment Income (Loss):		
Interest	<u>33,055</u>	<u>(358)</u>
Net investment income (loss)	<u>33,055</u>	<u>(358)</u>
Total additions	2,234,165	(332)
Deductions:		
Benefit payments to plan members, beneficiaries and other systems	2,001,110	-
Other	<u>-</u>	<u>1,500</u>
Total deductions	<u>2,001,110</u>	<u>1,500</u>
Net increase (decrease)	233,055	(1,832)
Net position:		
Beginning of year	<u>401,886</u>	<u>186,399</u>
End of year	<u>\$ 634,941</u>	<u>\$ 184,567</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Related Organization

The Town has a related organization relationship with Lynnfield Initiative for Elders, Inc. (LIFE), a Massachusetts non-profit corporation organized under Chapter 180 of the Massachusetts General Laws to own, develop, operate, and manage elderly housing units within the Town of Lynnfield. The Town, acting through the Board of Selectmen, is the sole Class A member of LIFE, and as such, has the right to fix the number of LIFE's directors, elect a majority of directors, remove directors, and fill all director vacancies. In addition, the Board of Selectmen must approve LIFE's plans for financing, constructing, and managing real property before they become final. However, the Town is not financially accountable for LIFE because it cannot impose its will and does not have a financial benefit or burden relationship with LIFE, even though it appoints a voting majority of LIFE's governing Board of Directors.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Sale of Real Estate* fund is used to account for revenues and appropriations associated with the sale or disposal of Town-owned real property.
- The *Center Farm Acquisition* fund is used to account for activity associated with the purchase of 567 Main Street, which was approved at the Town's June 2014 special town meeting.

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

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

The Town reports the following major proprietary fund:

- The *Golf Course Fund* is used to account for all of the activity associated with the Town's operation of the Reedy Meadow and King Rail Reserve golf courses.

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

The Town reports the following fiduciary funds:

- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

E. Cash and Short-Term Investments

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

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

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

F. Investments

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

Investments for the trust funds consist of certificates of deposits, U.S. government securities, corporate bonds, corporate equities, and mutual funds. Investments are carried at fair value, except certificates of deposit which are reported at cost.

G. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth); unless an override or debt exemption is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$15,790.

H. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are

recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

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

K. Fund Equity

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

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

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

L. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 58,609,143	\$ 56,672,331
Other financing sources/uses (GAAP basis)	<u>995,040</u>	<u>1,247,638</u>
Subtotal (GAAP Basis)	59,604,183	57,919,969
Adjust tax revenue to accrual basis	(437,809)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,028,719)
Add end-of-year appropriation carryforwards from expenditures	-	1,422,627
Record raising of prior year deficits	-	117,499
To reverse the effect of non-budgeted State contributions	(5,697,868)	(5,697,556)
Record use of free cash	1,472,000	-
Reverse the effects of combining general fund and stabilization funds (GASB 54)	<u>(491,041)</u>	<u>-</u>
Budgetary basis	<u>\$ 54,449,465</u>	<u>\$ 52,733,820</u>

D. Deficit Fund Equity

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

It is anticipated that the deficits in these funds will be eliminated through future grant revenues and bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits Town deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's deposits do not exceed this limitation.

As of June 30, 2017, \$751,377 of the Town's bank balance of \$15,868,416 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>					
			<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>	<u>Baa3</u>
Certificates of deposits	\$ 994	\$ 994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency securities	1,800	-	1,800	-	-	-	-	-
Corporate bonds	724	-	-	70	90	175	324	65
Corporate equities	420	420	-	-	-	-	-	-
Mutual funds	396	396	-	-	-	-	-	-
Total investments	<u>\$ 4,334</u>	<u>\$ 1,810</u>	<u>\$ 1,800</u>	<u>\$ 70</u>	<u>\$ 90</u>	<u>\$ 175</u>	<u>\$ 324</u>	<u>\$ 65</u>

B. Custodial Credit Risk

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

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

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town did not hold investments in any one issuer representing 5% or more of total investments at June 30, 2017.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>N/A</u>
Certificates of deposit	\$ 994	\$ 3	\$ 991	\$ -
Federal agency securities	1,800	-	1,800	-
Corporate bonds	724	260	464	-
Corporate equities	420	-	-	420
Mutual funds	396	-	-	396
Total	<u>\$ 4,334</u>	<u>\$ 263</u>	<u>\$ 3,255</u>	<u>\$ 816</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.

As of June 30, 2017, the Town had no investments that were directly exposed to foreign currency risk.

F. Fair Value

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

The Town has the following fair value measurements as of June 30, 2017 (in thousands):

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities:			
Federal agencies	\$ 1,800	\$ -	\$ 1,800
Corporate bonds	724	\$ -	\$ 724
Equity securities:			
Corporate equities	420	\$ 420	\$ -
Mutual funds	396	\$ 396	\$ -
Total	<u>\$ 3,340</u>		

5. Taxes and Excises Receivables

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

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

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually

calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excise receivables at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 291,265	\$ (29,127)	\$ 262,138
Personal property taxes	11,240	(4,360)	6,880
Tax liens	40,652	(4,065)	36,587
Tax deferrals	326,949	(32,695)	294,254
Other	<u>140,243</u>	<u>(2,159)</u>	<u>138,084</u>
Total property taxes	810,349	(72,406)	737,943
Motor vehicle excise	<u>190,990</u>	<u>(33,986)</u>	<u>157,004</u>
Total excises	<u>190,990</u>	<u>(33,986)</u>	<u>157,004</u>
Grand total	<u>\$ 1,001,339</u>	<u>\$ (106,392)</u>	<u>\$ 894,947</u>

6. User Fee Receivables

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

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Emergency Medical Services	\$ <u>760,306</u>	\$ <u>(548,869)</u>	\$ <u>211,437</u>
Total	<u>\$ 760,306</u>	<u>\$ (548,869)</u>	<u>\$ 211,437</u>

7. Intergovernmental Receivables

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

8. Interfund Fund Accounts

Transfers

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

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds:</u>		
Major Funds:		
General fund	\$ 995,040	\$ 1,247,638
Nonmajor Funds:		
Special revenue	9,871	594,050
Expendable trust fund	-	990
Subtotal - Nonmajor funds	<u>9,871</u>	<u>595,040</u>
<u>Business-Type Funds:</u>		
Golf enterprise fund	<u>837,767</u>	<u>-</u>
Subtotal - Business-Type funds	<u>837,767</u>	<u>-</u>
Total	<u>\$ 1,842,678</u>	<u>\$ 1,842,678</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 1,076	\$ -	\$ -	\$ 1,076
Buildings and improvements	99,519	33	-	99,552
Machinery, equipment, and furnishings	14,178	1,128	(26)	15,280
Infrastructure	<u>11,085</u>	<u>896</u>	<u>-</u>	<u>11,981</u>
Total capital assets, being depreciated	125,858	2,057	(26)	127,889
Less accumulated depreciation for:				
Land improvements	(754)	(37)	-	(791)
Buildings and improvements	(42,591)	(2,392)	-	(44,983)
Machinery, equipment, and furnishings	(11,996)	(592)	26	(12,562)
Infrastructure	<u>(3,647)</u>	<u>(293)</u>	<u>-</u>	<u>(3,940)</u>
Total accumulated depreciation	<u>(58,988)</u>	<u>(3,314)</u>	<u>26</u>	<u>(62,276)</u>
Total capital assets, being depreciated, net	66,870	(1,257)	-	65,613
Capital assets, not being depreciated:				
Land	7,768	-	-	7,768
Construction in progress	<u>758</u>	<u>482</u>	<u>-</u>	<u>1,240</u>
Total capital assets, not being depreciated	<u>8,526</u>	<u>482</u>	<u>-</u>	<u>9,008</u>
Governmental activities capital assets, net	<u>\$ 75,396</u>	<u>\$ (775)</u>	<u>\$ -</u>	<u>\$ 74,621</u>

	Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 161	\$ -	\$ -	\$ 161
Buildings and improvements	482	-	-	482
Machinery, equipment, and furnishings	<u>827</u>	<u>-</u>	<u>-</u>	<u>827</u>
Total capital assets, being depreciated	1,470	-	-	1,470
Less accumulated depreciation for:				
Land improvements	(10)	(7)	-	(17)
Buildings and improvements	(132)	(12)	-	(144)
Machinery, equipment, and furnishings	<u>(663)</u>	<u>(45)</u>	<u>-</u>	<u>(708)</u>
Total accumulated depreciation	<u>(805)</u>	<u>(64)</u>	<u>-</u>	<u>(869)</u>
Total capital assets, being depreciated, net	665	(64)	-	601
Capital assets, not being depreciated:				
Land	12,587	-	-	12,587
Construction in progress	<u>104</u>	<u>71</u>	<u>-</u>	<u>175</u>
Total capital assets, not being depreciated	<u>12,691</u>	<u>71</u>	<u>-</u>	<u>12,762</u>
Business-type activities capital assets, net	<u>\$ 13,356</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 13,363</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 397
Public safety	248
Education	2,007
Public works	532
Health and human services	111
Culture and recreation	<u>19</u>
Total depreciation expense - governmental activities	<u>\$ 3,314</u>
Business-Type Activities:	
Golf Course	\$ 26
Emergency Medical Services	<u>38</u>
Total depreciation expense - business-type activities	<u>\$ 64</u>

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement

No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 20.

11. Warrants and Accounts Payable

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

12. Accrued Liabilities

Accrued liabilities consist of amounts accrued at June 30, 2017 for fiscal 2017 employee payrolls, as well as interest accrued on outstanding bonds.

13. Notes Payable

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/17</u>
Center Farm Acquisition	1.70%	06/16/17	06/15/18	\$ 470,903
Total				\$ 470,903

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

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Rollover #1</u>	<u>Rollover #2</u>	<u>Bonded</u>	<u>Paydown</u>	<u>Balance End of Year</u>
Land acquisition	\$ 1,405,903	\$ -	\$ (1,405,903)	\$ -	\$ -	\$ -	\$ -
Athletic facilities	822,068	-	(822,068)	-	-	-	-
Land acquisition	-	-	1,405,903	(1,405,903)	-	-	-
Athletic facilities and DPW equipment	-	360,000	822,068	-	(1,182,068)	-	-
Land acquisition	-	-	-	1,405,903	-	(1,405,903)	-
Land acquisition	-	470,903	-	-	-	-	470,903
Total	\$ 2,227,971	\$ 830,903	\$ -	\$ -	\$ (1,182,068)	\$ (1,405,903)	\$ 470,903

14. Other Current Liabilities

This balance consists primarily of various employee payroll withholdings.

15. Capital Lease Obligations

The Town is the lessee of certain equipment under a capital lease expiring in fiscal year 2019. Future minimum lease payments under the capital lease consist of the following as of June 30, 21017:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2018	\$ 20,751
2019	<u>22,800</u>
Total minimum lease payments	43,551
Less amounts representing interest	<u>(5,858)</u>
Present Value of Minimum Lease Payments	<u>\$ 37,693</u>

16. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/17</u>
Senior center van	06/15/18	1.30%	\$ 10,000
Septic (MWPAT)	08/01/18	0.00%	20,191
Fire truck	02/15/19	2.26%	112,000
FY07 capital plan	02/15/24	4.01%	180,000
General obligation bonds	04/01/30	3.00-4.00%	1,671,000
Septic (MWPAT)	07/15/32	0.00%	160,478
Septic (MWPAT)	01/15/33	0.00%	202,272
School bonds	06/15/33	2.75%	2,045,000
Refunded senior center bonds	07/01/21	1.42%	560,000
Refunded school bonds	07/01/22	1.55%	3,520,000
Refunded school bonds	07/01/24	1.79%	4,470,000
Recreation	07/15/34	2.67%	<u>4,025,000</u>
Total Governmental Activities:			<u>\$ 16,975,941</u>

<u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
Golf course purchase	02/15/25	4.01%	\$ 1,600,000
Golf course purchase	02/15/25	3.29%	<u>4,223,000</u>
Total Business-Type Activities:			<u>\$ 5,823,000</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,959,656	\$ 543,278	\$ 2,502,934
2019	1,938,669	473,964	2,412,633
2020	1,862,589	402,309	2,264,898
2021	1,837,604	333,024	2,170,628
2022	1,822,619	265,934	2,088,553
2023 - 2027	5,058,320	667,256	5,725,576
2028 - 2032	2,143,699	193,350	2,337,049
Thereafter	<u>352,785</u>	<u>14,844</u>	<u>367,629</u>
Total	<u>\$ 16,975,941</u>	<u>\$ 2,893,959</u>	<u>\$ 19,869,900</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 629,000	\$ 215,573	\$ 844,573
2019	654,000	196,088	850,088
2020	675,000	174,668	849,668
2021	715,000	151,435	866,435
2022	745,000	125,510	870,510
2023 - 2027	<u>2,405,000</u>	<u>196,125</u>	<u>2,601,125</u>
Total	<u>\$ 5,823,000</u>	<u>\$ 1,059,399</u>	<u>\$ 6,882,399</u>

The general fund has been designated as the sole source to repay the governmental activities and business-type activities general obligation long-term debt outstanding as of June 30, 2017.

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/16</u>	Additions	Reductions	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 17,104	\$ 1,671	\$ (1,799)	\$ 16,976	\$ (1,960)	\$ 15,016
Unamortized premium	-	58	(5)	53	(4)	49
Subtotal	17,104	1,729	(1,804)	17,029	(1,964)	15,065
Net pension liability	29,141	1,509	-	30,650	-	30,650
Net OPEB liability	30,760	6,235	-	36,995	-	36,995
Other:						
Compensated absences	721	76	(11)	786	(263)	523
Capital leases	-	68	(25)	43	(21)	22
Subtotal - other	721	144	(36)	829	(284)	545
Totals	\$ <u>77,726</u>	\$ <u>9,617</u>	\$ <u>(1,840)</u>	\$ <u>85,503</u>	\$ <u>(2,248)</u>	\$ <u>83,255</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,427	\$ -	\$ (604)	\$ 5,823	\$ (629)	\$ 5,194
Totals	\$ <u>6,427</u>	\$ <u>-</u>	\$ <u>(604)</u>	\$ <u>5,823</u>	\$ <u>(629)</u>	\$ <u>5,194</u>

17. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 20. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

18. Governmental Funds - Balances

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

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the use-

fulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting.

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

Unassigned – Represents amounts that are available to spend in future periods. This fund balance classification includes general fund surplus fund balance, general and capital facility stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue and capital project temporary deficit fund balances.

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

	General Fund	Sale of Real Estate	Center Farm Acquisition	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds:	\$ -	\$ -	\$ -	\$ 904,975	\$ 904,975
Total Nonspendable	-	-	-	904,975	904,975
Restricted					
Special revenue funds	-	2,480,754	-	2,823,414	5,304,168
Expendable trust funds	-	-	-	336,164	336,164
Capital project funds	-	-	-	332,219	332,219
Expendable permanent funds	-	-	-	33,635	33,635
Total Restricted	-	2,480,754	-	3,525,432	6,006,186
Committed					
Article carryforwards	1,081,934	-	-	-	1,081,934
Recreation capital trust stabilization fund	157,656	-	-	-	157,656
Total Committed	1,239,590	-	-	-	1,239,590
Assigned					
Encumbrances	340,693	-	-	-	340,693
Reserve for expenditures	2,546,418	-	-	-	2,546,418
Total Assigned	2,887,111	-	-	-	2,887,111
Unassigned					
General fund	3,028,949	-	-	-	3,028,949
General stabilization funds	2,655,984	-	-	-	2,655,984
Special revenue fund deficits	-	-	-	(34,932)	(34,932)
Capital project fund deficits	-	-	(470,903)	-	(470,903)
Total Unassigned	5,684,933	-	(470,903)	(34,932)	5,179,098
Total Fund Balance	\$ 9,811,634	\$ 2,480,754	\$ (470,903)	\$ 4,395,475	\$ 16,216,960

19. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraph summarizes the major differences.

Massachusetts General Laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and are for the safety of the public. The most common example of such an over-expenditure involves the "snow and ice" appropriation. However, all such over-expenditures must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget short-falls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 5,684,933
General stabilization	(2,655,984)
Appellate tax board cases	740,820
Snow and ice deficit	<u>275,000</u>
Statutory (UMAS) Balance	<u>\$ 4,044,769</u>

20. **Essex Regional Retirement System**

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

A. Plan Description

Substantially all Town employees (except teachers and administrators under contract employed by the School Department) are members of the Essex Regional Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System, which provides pension benefits, deferred allowances, and death and disability benefits. The System's authority is established by Chapter 32 of the Massachusetts General Laws, which also govern contribution percentages and benefits paid. The System's Board of Directors does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available from the System's administrative offices located at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025. Reports are also available on the System's website at www.essexregional.com.

Participant Retirement Benefits

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

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

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

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

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on their contributions.

Participants Contributions

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

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

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

Employer Contributions

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

The Town’s contribution to the System for the year ended June 30, 2017 was \$2,418,319, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2017, the Town reported a liability of \$30,649,501 for its proportionate share of the System’s net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town’s proportion of the net pension liability was based on an actuarially determined projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2016, the Town’s proportion was 7.955%.

For the year ended June 30, 2017, the Town recognized pension expense of \$3,454,398. In addition, 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	\$ -	\$ 551,949
Changes of assumptions	1,298,956	-
Net difference between projected and actual earnings on pension plan investments	1,342,602	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	<u>302,688</u>
Total	<u>\$ 2,641,558</u>	<u>\$ 854,637</u>

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

Year ended June 30:

2018	\$ 515,670
2019	515,670
2020	544,803
2021	181,389
Thereafter	<u>29,389</u>
Total	<u>\$ 1,786,921</u>

D. Actuarial Assumptions

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

COLA	3% of the first \$13,000
Salary increases	Select and ultimate:
	Year 1 7.50%
	Year 2 6.50%
	Year 3 6.00%
	Year 4 5.50%
	Year 5 5.00%
	Thereafter 3.75%
Investment rate of return	7.75%

Mortality rates were based on the RP-2000 mortality table (sex-distinct, healthy employees for actives and healthy annuitants for retirees) projected with scale BB and Generational Mortality. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality is the healthy retiree table ages set forward 2 years.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each 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 net of investment expenses by the target asset allocation percentage and by adding an expected inflation rate of 3.00%. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	14.50%	7.50%
Mid/Small Cap Equities	3.50%	7.75%
International Equities	16.00%	7.83%
Emerging International Equities	6.00%	9.61%
Core Bonds	5.00%	4.00%
20+ Year Treasuries	5.00%	3.75%
TIPS	3.00%	3.75%
High-Yield Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge Funds and Portfolio Completion	<u>13.00%</u>	6.48%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution

rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 37,543,215	\$ 30,649,501	\$ 25,549,603

G. Pension Plan Fiduciary Net Position

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

21. Massachusetts Teachers’ Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the

State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

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

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender district).
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender district).
 - Disability – assumed to be in accordance with the RP-2014 Health Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

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

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

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

<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statements No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Commonwealth Proportions Associated with Town

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense associated with the Town was \$55,854,804 and \$5,697,556 respectively, based on a proportionate share of 0.249821%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

22. Other Post-Employment Benefits – OPEB (GASB 45)

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use them. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 20, the Town participates in a single-employer, defined benefit postretirement health insurance program to provide postretirement health insurance coverage to eligible retirees. Benefits, benefit levels, employee, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. All employees retiring from the Town who (a) are eligible for and in fact receive a retirement allowance in accordance with M.G.L. Chapter 32, through either the Massachusetts Teachers Retirement System (MTRS) or the Essex Regional Retirement System (ERRS) and (b) retire from the Town working 20 or more hours per week as an active Town employee (23.5 hours for teachers) are eligible to receive benefits. As of July 1, 2015, the most recent actuarial valuation date, approximately 307 active employees and 313 retirees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town covers a portion of the premiums for eligible retirees under either individual or family medical coverage. The amount of the retirees' share towards medical coverage depends on the type of coverage selected. Effective June 7, 2011, the Town transferred subscribers of health coverage to the Group Insurance Commission (GIC). The coverage under the GIC currently includes four types of medical coverage: HMO, PPO, Indemnity, and Medicare Supplemental Plans. Under each type of medical coverage there are numerous medical plans.

Effective July 1, 2011, the Town also offers retirees dental coverage with a retiree contribution rate of 100% of the premium. The retirees' dental plan is separate from the dental plan for active participants. Dental coverage is not valued in the Town's postretirement health insurance plan because the Town has no share of the premium cost and there is no implicit rate subsidy since the retirees have their own dental plan.

C. Funding Policy

The Town contributes 85% of the medical insurance premiums for eligible retirees under various HMO and Medicare plans, 75% under various PPO plans, and 50% under various Indemnity plans on a pay-as-you-go basis. Retirees contribute the remainder of their chosen health plan premium costs.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2017 Annual OPEB Cost (AOC) is calculated based on the employer's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Town's AOC for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

Annual Required Contribution (ARC)	\$ 9,090,463
Interest on net OPEB obligation	898,203
Adjustment to ARC	<u>(1,553,186)</u>
Annual OPEB cost	8,435,480
Contributions made	(1,856,543)
Allocation for implicit rate subsidy	<u>(344,567)</u>
Increase in net OPEB obligation	6,234,370
Net OPEB obligation - beginning of year	<u>30,760,382</u>
Net OPEB obligation - end of year	<u><u>\$ 36,994,752</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2017 fiscal year and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 5,891,763	33.2%	\$ 25,361,372
2016	\$ 7,672,646	29.6%	\$ 30,760,382
2017	\$ 8,435,480	26.1%	\$ 36,994,752

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 69,876,225
Actuarial value of plan assets	<u>200,373</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 69,675,852</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.3%</u>
Covered payroll (active plan members)	<u>\$ 21,457,366</u>
UAAL as a percentage of covered payroll	<u>324.7%</u>

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the Town's ARC was determined using the Projected Unit Credit funding method (with service proration). Under this funding method, projected benefits are assumed to accrue on a straight-line basis from date of hire to expected retirement date for each participant. The actuarial value of assets is equal to the market value of the plan's assets. Other actuarial assumptions included a 4.0% discount rate and an initial health care cost trend rate of 7.0% per year graded down by the Getzen model to an ultimate rate of 3.84% per year. The Unfunded Actuarial Accrued Liability (UAAL) is amortized over 30 or fewer years and the 30-year level

dollar amortization is presumed to be established on an open amortization basis, where the amortization period is reset each year to be 30 years.

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

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

Investments

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

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 75,658,208
Plan fiduciary net position	<u>(634,941)</u>
Net OPEB liability	<u><u>\$ 75,023,267</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.84%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.56%
Salary increases	3.00%, average, including inflation
Long term rate of return	7.00%, net of OPEB plan investment expense, including inflation

Mortality rates were based on:

- **Healthy Mortality:** The RP-2014 Mortality Table has been modified by removing the MP-2014 projections for years 2007 forward to arrive at a hypothetical “RP-2006” base table. Then this base table is projected from 2006 forward with MP-2017 Generational Projection (M/F).

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and

inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	35.0%	N/A
Fixed income	45.0%	N/A
Alternatives	<u>20.0%</u>	N/A
Total	<u>100.0%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	Discount Trend		
	1% Decrease (2.56%)	Rates (3.56%)	1% Increase (4.56%)
	<u>\$ 88,720,905</u>	<u>\$ 75,023,267</u>	<u>\$ 64,175,486</u>

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current healthcare cost trend rates:

	Healthcare Cost Trend		
	1% Decrease 5.50%	Rates 6.50%	1% Increase 7.50%
	<u>\$ 61,934,668</u>	<u>\$ 75,023,267</u>	<u>\$ 92,312,120</u>

24. Commitments and Contingencies

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

25. Beginning Fund Balance Reclassification

The beginning (July 1, 2016) fund balance of the Town has been reclassified as follows:

Fund Basis Financial Statements:

	<u>Outdoor Recreation Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
As previously reported	\$ (513,587)	\$ 3,917,042	\$ 3,403,455
Reclassification of prior year major fund	<u>513,587</u>	<u>(513,587)</u>	<u>-</u>
As reclassified	<u>\$ -</u>	<u>\$ 3,403,455</u>	<u>\$ 3,403,455</u>

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

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

JUNE 30, 2017
(Unaudited)

Essex Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	7.955%	\$30,649,501	\$ 10,794,272	283.94%	51.12%
June 30, 2016	December 31, 2015	8.020%	\$29,141,294	\$ 9,961,467	292.54%	51.01%
June 30, 2015	December 31, 2014	7.907%	\$26,824,501	\$ 9,568,326	280.35%	52.27%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.249821%	\$ -	\$ 55,854,804	\$ 55,854,804	\$ 16,432,363	-	52.73%
June 30, 2016	June 30, 2015	0.253662%	\$ -	\$ 51,974,513	\$ 51,974,513	\$ 16,079,350	-	55.38%
June 30, 2015	June 30, 2014	0.251726%	\$ -	\$ 40,015,290	\$ 40,015,290	\$ 15,439,861	-	61.64%

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

See Independent Auditors' Report.

TOWN OF LYNNFIELD, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

**JUNE 30, 2017
(Unaudited)**

Essex Regional Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 2,418,319	\$ 2,418,319	\$ -	\$ 10,794,272	22.40%
June 30, 2016	\$ 2,308,330	\$ 2,308,330	\$ -	\$ 9,961,467	23.17%
June 30, 2015	\$ 2,118,002	\$ 2,118,002	\$ -	\$ 9,568,326	22.14%

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

See Independent Auditors' Report.

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

June 30, 2017

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/07	\$ -	\$ 48,698	\$ 48,698	0.0%	\$ 13,370	364.2%
07/01/09	\$ -	\$ 46,995	\$ 46,995	0.0%	\$ 16,465	285.4%
07/01/11	\$ -	\$ 52,150	\$ 52,150	0.0%	\$ 16,200	321.9%
07/01/13	\$ -	\$ 56,363	\$ 56,363	0.0%	\$ 18,405	306.2%
07/01/15	\$ 200	\$ 69,876	\$ 69,676	0.3%	\$ 21,457	324.7%

See Independent Auditors' Report.

**TOWN OF LYNNFIELD, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 4,972,243
Interest on total OPEB liability	2,370,457
Differences between expected and actual experience	(1,459,126)
Changes of assumptions	(10,371,124)
Benefit payments, including refunds of member contributions	<u>(2,001,110)</u>
Net change in total OPEB liability	(6,488,660)
Total OPEB liability - beginning	<u>82,146,868</u>
Total OPEB liability - ending (a)	<u>\$ 75,658,208</u>
 Plan fiduciary net position	
Contributions - employer	\$ 2,201,110
Net investment income	33,055
Benefit payments, including refunds of member contributions	<u>(2,001,110)</u>
Net change in plan fiduciary net position	233,055
Plan fiduciary net position - beginning	<u>401,886</u>
Plan fiduciary net position - ending (b)	<u>\$ 634,941</u>
 Net OPEB liability (asset) - ending (a-b)	<u>\$ 75,023,267</u>

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

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

See Independent Auditors' Report.

**TOWN OF LYNNFIELD, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 75,658,208
Plan fiduciary net position	<u>634,941</u>
Net OPEB liability (asset)	<u>\$ 75,023,267</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.84%
Covered payroll	\$ 18,405,817
Participating employer net OPEB liability (asset) as a percentage of covered payroll	 407.61%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 1,784,927
Contributions in relation to the actuarially determined contribution	<u>2,201,110</u>
Contribution deficiency (excess)	<u>\$ (416,183)</u>
Covered payroll	\$ 18,405,817
Contributions as a percentage of covered payroll	11.96%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	6.59%

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