

TOWN OF NEWBURY, MASSACHUSETTS

Financial Statements

June 30, 2017

(With Accountants' Report Thereon)

Town of Newbury, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS –
TOWN OF NEWBURY

Board of Selectmen
Town of Newbury
12 Kent Way
Suite 101
Byfield, MA 01922

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 Newbury, 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

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

Auditor's Responsibility

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

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

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

Opinion

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 Newbury, Massachusetts as of June 30, 2017 and the respective changes in financial position 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, the budgetary statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Town of Newbury, Massachusetts' 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 the Town of Newbury, Massachusetts' internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
December 8, 2017

Town of Newbury, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2017

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

Financial Highlights

- The assets and deferred outflows of the Town of Newbury, Massachusetts exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$55,700,223 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,396,733, or 13.0% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Newbury, Massachusetts' basic financial statements. The Town of Newbury, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise of 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).

Government-wide financial statements have a separate column for governmental activities and for business type activities (when applicable). The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-Type Activities** – Activities here are used to account for ambulance services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Newbury, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town of Newbury, Massachusetts are classified as governmental funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town of Newbury, Massachusetts maintains one proprietary (enterprise) fund type. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Newbury, Massachusetts uses the enterprise fund to account for its ambulance services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the enterprise fund. The ambulance fund is considered a major fund of the Town of Newbury, Massachusetts.

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. The Town maintains fiduciary funds to account for activities related to its Other Post Employment Benefits (OPEB) trust funds. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the Town of Newbury, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the Statement of Net Position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements.

We have included the following schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet – total fund balances to the Statement of Net Position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of the governmental funds to the statement of activities.

Financial Analysis of the Government-wide Financial Statements

Net Position

Net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed 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	\$ 14,848,955	\$ 15,190,926	\$ 295,198	\$ 142,915	\$ 15,144,153	\$ 15,333,841
Capital Assets	60,969,540	61,084,486	87,871	98,209	61,057,411	61,182,695
Total Assets	<u>75,818,495</u>	<u>76,275,412</u>	<u>383,069</u>	<u>241,124</u>	<u>76,201,564</u>	<u>76,516,536</u>
Deferred Outflow of Resources	<u>744,090</u>	<u>508,328</u>	<u>-</u>	<u>-</u>	<u>744,090</u>	<u>508,328</u>
Current Liabilities	1,527,605	1,631,749	67,304	83,205	1,594,909	1,714,954
Long Term Liabilities	19,460,943	19,787,001	-	-	19,460,943	19,787,001
Total Liabilities	<u>20,988,547</u>	<u>21,418,750</u>	<u>67,304</u>	<u>83,205</u>	<u>21,055,851</u>	<u>21,501,955</u>
Deferred Inflow of Resources	<u>189,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,580</u>	<u>-</u>
Net Position:						
Net Investment in Capital Assets	58,691,908	58,282,819	20,567	15,004	58,712,475	58,297,823
Restricted	3,261,324	3,093,351	1,620	4,536	3,262,944	3,097,887
Unrestricted	(6,568,774)	(6,011,180)	293,578	138,379	(6,275,196)	(5,872,801)
Total Net Position	<u>\$ 55,384,458</u>	<u>\$ 55,364,990</u>	<u>\$ 315,765</u>	<u>\$ 157,919</u>	<u>\$ 55,700,223</u>	<u>\$ 55,522,909</u>

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position has changed during the fiscal year.

	<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>
Revenues						
Program Revenues:						
Charges for Services	\$ 825,454	\$ 804,946	\$ 344,073	\$ 351,698	1,169,527	1,156,644
Operating Grants and Contributions	421,314	293,821	-	-	421,314	293,821
Capital Grants and Contributions	170,418	194,489	-	-	170,418	194,489
General Revenues:						
Property Taxes	15,043,821	14,906,476	-	-	15,043,821	14,906,476
Motor Vehicle and Other Excises	1,260,638	1,217,986	-	-	1,260,638	1,217,986
Intergovernmental Not Restricted to a Specific Program	1,081,818	1,040,691	-	-	1,081,818	1,040,691
Other	361,641	550,676	-	-	361,641	550,676
Total Revenues	<u>19,165,103</u>	<u>19,009,086</u>	<u>344,073</u>	<u>351,698</u>	<u>19,509,176</u>	<u>19,360,784</u>

Changes in Net Position (Continued)	<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>
Expenses						
General Government	1,880,429	1,598,193	-	-	1,880,429	1,598,193
Public Safety	2,606,799	2,515,479	182,424	198,448	2,789,223	2,713,927
Education	9,688,771	9,956,709	-	-	9,688,771	9,956,709
Intergovernmental	134,864	147,196	-	-	134,864	147,196
Highways and Public Works	1,801,220	2,169,954	-	-	1,801,220	2,169,954
Human Services	238,288	271,477	-	-	238,288	271,477
Culture and Recreation	380,663	465,791	-	-	380,663	465,791
Employee Benefits	2,120,454	1,793,125	-	-	2,120,454	1,793,125
Debt Service	296,456	330,807	-	-	296,456	330,807
Total Expenses	<u>19,147,944</u>	<u>19,248,731</u>	<u>182,424</u>	<u>198,448</u>	<u>19,330,368</u>	<u>19,447,179</u>
Increase (Decrease) in Net Position						
Before Special items	17,159	(239,645)	161,649	153,250	178,808	(86,395)
Special Items and Transfers	<u>(5,338)</u>	<u>(9,495)</u>	<u>(3,803)</u>	<u>4,669</u>	<u>(9,141)</u>	<u>(4,826)</u>
Increase (Decrease) in Net Position	<u>\$ 11,821</u>	<u>\$ (249,140)</u>	<u>\$ 157,846</u>	<u>\$ 157,919</u>	<u>\$ 169,667</u>	<u>\$ (91,221)</u>

Governmental Activities

In fiscal year 2017, property taxes accounted for approximately 78.5% of the Town's revenues.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of Newbury, Massachusetts's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Newbury, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Newbury, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Newbury, Massachusetts' Selectmen.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts Department of Revenue (DOR) determines the amount of general fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance and details the certified free cash.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>	<u>Free Cash</u>
2011 **	\$ 5,876,638	\$ -	\$ 22,501	\$ 950,080	\$ 6,849,219	\$ 413,317
2012	-	-	169,514	1,292,395	1,461,909	959,003
2013	-	-	370,649	1,364,930	1,735,579	848,263
2014	-	-	221,554	2,568,083	2,789,637	1,591,092
2015	-	-	338,384	2,731,722	3,070,106	2,076,506
2016	-	-	1,455,337	2,657,342	4,112,679	1,929,148
2017	-	-	1,639,789	2,396,733	4,036,522	1,499,298

**The above \$5,876,638 fund balance amount is made up of restricted funds to be used to repay the refunded debt, which was due on August 1, 2011. For a further explanation of the debt refunding, please see the notes to the financial statements.

General Fund Budgetary Highlights

Conservative budget estimates allowed the Town to experience favorable operating results for both revenues and expenditures. Positive budgetary variances occurred in substantially all revenue categories.

Capital Asset and Debt Administration

Capital Assets. The Town of Newbury, Massachusetts' investments in capital assets as of June 30, 2017, amounts to \$61,057,411 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	<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>
Land	\$ 12,337,046	\$ 12,337,046	\$ -	\$ -	\$ 12,337,046	\$ 12,337,046
Construction in Progress	167,967	411,897	-	-	167,967	411,897
Buildings	14,937,257	14,772,832	-	-	14,937,257	14,772,832
Improvements Other Than Buildings	61,987	75,777	-	-	61,987	75,777
Infrastructure	32,051,998	32,406,405	-	-	32,051,998	32,406,405
Equipment	886,735	706,935	-	-	886,735	706,935
Vehicles	526,551	373,594	87,871	98,209	614,422	471,803
Total	<u>\$ 60,969,540</u>	<u>\$ 61,084,486</u>	<u>\$ 87,871</u>	<u>\$ 98,209</u>	<u>\$ 61,057,411</u>	<u>\$ 61,182,695</u>

Debt

The Town had \$8,925,985 in bonds outstanding on June 30, 2017. The long term debt decreased by \$1,044,778 during the fiscal year ended June 30, 2017. This decrease is the result of the normal retirement of general obligation bonds.

<u>Governmental Activities</u>	<u>2017</u>	<u>2016</u>
General Obligation Bonds Payable	<u>\$8,925,985</u>	<u>\$9,970,763</u>

Fiscal Year 2017 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that the Town can assess in any one year. In general, the Town’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing properties. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½ “, it is necessary to obtain the approval of a majority of the voters at an election.

Request for Information

The financial report is designed to provide a general overview of the Town of Newbury, Massachusetts’ finances for all those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be address to:

Town of Newbury
Finance Department
12 Kent Way
Suite 101
Byfield, MA 01922

Town of Newbury, Massachusetts
Statement of Net Position
June 30, 2017
(Continued on Page 10)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government-Wide Total</u>
Assets			
Current:			
Cash/Investments	\$ 7,670,778	\$ -	\$ 7,670,778
Accounts Receivable:			
Property Taxes	109,541	-	109,541
Tax Liens	121,502	-	121,502
Excises	147,041	-	147,041
User Charges	-	215,296	215,296
Other	6,436	-	6,436
Intergovernmental	86,336	-	86,336
Special Assessments	12,487	-	12,487
Due From (To) Other Fund	(217,381)	79,902	(137,479)
Tax Foreclosures	276,349	-	276,349
Noncurrent:			
Accounts Receivable:			
Deferred Special Assessments	6,635,866	-	6,635,866
Capital Assets:			
Assets Not Being Depreciated	12,505,013	-	12,505,013
Assets Being Depreciated, Net	48,464,527	87,871	48,552,398
Total Assets	<u>75,818,495</u>	<u>383,069</u>	<u>76,201,564</u>
Deferred Outflow of Resources			
Pension	744,090	-	744,090
Total Deferred Outflow of Resources	<u>744,090</u>	<u>-</u>	<u>744,090</u>
Total Assets and Deferred Outflow of Resources	<u>76,562,585</u>	<u>383,069</u>	<u>76,945,654</u>
Liabilities			
Current:			
Warrants Payable	170,781	-	170,781
Accrued Salaries Payable	74,702	-	74,702
Unclaimed Checks	14,503	-	14,503
Other Liabilities	108,860	-	108,860
Capital Lease Payable	-	67,304	67,304
Accrued Interest	109,725	-	109,725
Bonds Payable	1,049,034	-	1,049,034
Noncurrent:			
Bonds Payable	7,876,952	-	7,876,952
Net Pension Liability	7,526,365	-	7,526,365
Compensated Absences Payable	24,737	-	24,737
Other Post Employment Benefits Payable	3,334,892	-	3,334,892
Landfill Postclosure Costs Payable	697,997	-	697,997
Total Liabilities	<u>20,988,547</u>	<u>67,304</u>	<u>21,055,851</u>

Town of Newbury, Massachusetts
Statement of Net Position
June 30, 2017
(Continued from Page 9)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government-Wide Total</u>
Deferred Inflow of Resources			
Pension	189,580	-	189,580
Total Deferred Inflow of Resources	<u>189,580</u>	<u>-</u>	<u>189,580</u>
 Total Liabilities and Deferred Inflow of Resources	 <u>21,178,127</u>	 <u>67,304</u>	 <u>21,245,431</u>
 Net Position			
Net Investment in Capital Assets	58,691,908	20,567	58,712,475
Restricted for:			
Capital Projects	-	1,620	1,620
Debt Service	1,529,643	-	1,529,643
Special Revenue	1,503,044	-	1,503,044
Perpetual Funds:			
Nonexpendable	11,957	-	11,957
Expendable	216,680	-	216,680
Unrestricted (Deficit)	(6,568,774)	293,578	(6,275,196)
Total Net Position	<u><u>\$ 55,384,458</u></u>	<u><u>\$ 315,765</u></u>	<u><u>\$ 55,700,223</u></u>

Town of Newbury, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2017

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
Functions/Programs	Expenses	Charges for	Operating	Capital	Governmental	Business-Type	Total
		Services	Grants and Contributions	Grants and Contributions			
Governmental Activities:							
General Government	\$ 1,880,429	\$ 329,957	\$ -	\$ -	\$ (1,550,472)	\$ -	\$ (1,550,472)
Public Safety	2,606,799	399,577	109,539	-	(2,097,683)	-	(2,097,683)
Education	9,688,771	-	-	-	(9,688,771)	-	(9,688,771)
Intergovernmental	134,864	-	-	-	(134,864)	-	(134,864)
Highways and Public Works	1,801,220	6,206	272,324	170,418	(1,352,273)	-	(1,352,273)
Human Services	238,288	30,255	12,379	-	(195,654)	-	(195,654)
Culture and Recreation	380,663	59,460	27,071	-	(294,131)	-	(294,131)
Employee Benefits	2,120,454	-	-	-	(2,120,454)	-	(2,120,454)
Debt Service	296,456	-	-	-	(296,456)	-	(296,456)
Total Governmental Activities	\$ 19,147,944	\$ 825,454	\$ 421,314	\$ 170,418	(17,730,759)	-	(17,730,759)
Business Type Activities:							
Ambulance	182,424	344,073	-	-	-	161,649	161,649
Total Business-Type Activities	182,424	344,073	-	-	-	161,649	161,649
Total	\$ 19,330,368	\$ 1,169,527	\$ 421,314	\$ 170,418	(17,730,759)	161,649	(17,569,110)
General Revenues:							
Property Taxes					15,043,821	-	15,043,821
Motor Vehicle and Other Excise Taxes					1,260,638	-	1,260,638
Penalties and Interest on Taxes					30,852	-	30,852
Intergovernmental					1,081,818	-	1,081,818
Interest and Investment Income					21,956	-	21,956
Other Revenue					180,026	-	180,026
Fines and Forfeits					111,761	-	111,761
Tax Liens					17,046	-	17,046
Special Items:							
Contribution					-	15,901	15,901
Transfer Out					(5,338)	(19,704)	(25,042)
Total General Revenues, Special Items and Transfers					17,742,580	(3,803)	17,738,777
Change in Net Position					11,821	157,846	169,667
Net Position:							
Beginning of the Year					55,364,990	157,919	55,522,909
Prior Period Adjustment					7,647	-	7,647
Beginning of the Year (As Restated)					55,372,637	157,919	55,530,556
End of the Year					\$ 55,384,458	\$ 315,765	\$ 55,700,223

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2017

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 7,611,432	\$ -	\$ 59,346	\$ 7,670,778
Accounts Receivable:				
Property Taxes	109,541	-	-	109,541
Tax Liens	121,502	-	-	121,502
Excises	147,041	-	-	147,041
Other	-	-	6,436	6,436
Intergovernmental	-	-	86,336	86,336
Special Assessments Added to Tax	-	12,487	-	12,487
Special Assessments Not Yet Due	-	6,635,866	-	6,635,866
Due From Other Funds	-	1,529,643	1,661,980	3,191,623
Tax Foreclosures	276,349	-	-	276,349
Total Assets	<u>\$ 8,265,865</u>	<u>\$ 8,177,996</u>	<u>\$ 1,814,098</u>	<u>\$ 18,257,959</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:				
Liabilities:				
Warrants Payable	\$ 170,781	\$ -	\$ -	\$ 170,781
Accrued Salaries Payable	74,702	-	-	74,702
Due to Other Funds	3,409,004	-	-	3,409,004
Unclaimed Checks	14,503	-	-	14,503
Other Liabilities	32,348	-	76,512	108,860
Total Liabilities	<u>3,701,338</u>	<u>-</u>	<u>76,512</u>	<u>3,777,850</u>
Deferred Inflows of Resources:				
Unavailable Revenues	528,005	6,648,353	92,773	7,269,131
Total Deferred Inflows of Resources	<u>528,005</u>	<u>6,648,353</u>	<u>92,773</u>	<u>7,269,131</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	11,957	11,957
Restricted	-	1,529,643	1,633,387	3,163,030
Assigned	1,639,789	-	-	1,639,789
Unassigned	2,396,733	-	(531)	2,396,202
Total Fund Balances	<u>4,036,522</u>	<u>1,529,643</u>	<u>1,644,813</u>	<u>7,210,978</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,265,865</u>	<u>\$ 8,177,996</u>	<u>\$ 1,814,098</u>	<u>\$ 18,257,959</u>

Town of Newbury, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2017

			Nonmajor <u>Governmental</u>	Total <u>Governmental</u>
	<u>General</u>	<u>Betterment</u>	<u>Funds</u>	<u>Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 15,035,967	\$ -	\$ -	\$ 15,035,967
Tax Liens	17,046	-	-	17,046
Excises	1,292,567	-	-	1,292,567
Penalties and Interest	32,865	-	-	32,865
Licenses and Permits	386,323	-	-	386,323
Fees and Other Departmental	153,804	-	285,366	439,170
Intergovernmental	1,084,593	-	489,874	1,574,467
Fines and Forfeits	111,761	-	-	111,761
Earnings on Investments	21,954	-	9,355	31,309
Special Assessments	-	688,385	-	688,385
Contributions	-	-	5,085	5,085
Miscellaneous	113,475	-	-	113,475
Total Revenues	<u>18,250,355</u>	<u>688,385</u>	<u>789,680</u>	<u>19,728,420</u>
<u>Expenditures:</u>				
General Government	1,988,427	-	53,584	2,042,011
Public Safety	2,860,296	-	146,333	3,006,629
Education	9,332,927	-	-	9,332,927
Intergovernmental	134,864	-	-	134,864
Highways and Public Works	1,343,449	16,016	213,990	1,573,455
Human Services	255,861	-	13,233	269,094
Culture and Recreation	249,350	-	31,634	280,984
Employee Benefits	1,418,786	-	-	1,418,786
Debt Service	1,354,613	-	-	1,354,613
Total Expenditures	<u>18,938,573</u>	<u>16,016</u>	<u>458,774</u>	<u>19,413,363</u>
Excess of Revenues Over (Under) Expenditures	<u>(688,218)</u>	<u>672,369</u>	<u>330,906</u>	<u>315,057</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	637,261	-	7,847	645,108
Transfers (Out)	(32,847)	(609,607)	(7,992)	(650,446)
Total Other Financing Sources (Uses)	<u>604,414</u>	<u>(609,607)</u>	<u>(145)</u>	<u>(5,338)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(83,804)</u>	<u>62,762</u>	<u>330,761</u>	<u>309,719</u>
Fund Balance, Beginning	4,112,679	1,466,881	1,314,052	6,893,612
Prior Period Adjustment	7,647	-	-	7,647
Fund Balance, Beginning as Restated	<u>4,120,326</u>	<u>1,466,881</u>	<u>1,314,052</u>	<u>6,901,259</u>
Fund Balance, Ending	<u>\$ 4,036,522</u>	<u>\$ 1,529,643</u>	<u>\$ 1,644,813</u>	<u>\$ 7,210,978</u>

Town of Newbury, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
June 30, 2017

Total governmental fund balances	\$ 7,210,978
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	60,969,540
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,269,131
Certain changes in net pension liability are required to be included in the pension expense in future periods. These changes are reported as deferred outflows/ deferred inflows of resources related to pensions.	
Deferred Outflows of Resources - Pensions	744,090
Deferred Inflows of Resources - Pensions	(189,580)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(8,925,985)
Accrued Interest Payable	(109,725)
Compensated Absences Payable	(24,737)
Net Pension Liability	(7,526,365)
Other Post Employment Benefits Payable	(3,334,892)
Landfill Accrued Liabilities	<u>(697,997)</u>
Net Position of Governmental Activities	<u><u>\$ 55,384,458</u></u>

Town of Newbury, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2017

Net change in fund balances - total governmental funds \$ 309,719

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the change related to that activity.

Capital Outlay	961,192	
Depreciation	<u>(1,076,137)</u>	
Net Effect of Reporting Capital Assets		(114,945)

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 unearned revenue. (563,317)

The issuance of long-term debt (e.g., bonds and leases) 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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,044,775

Some expenses reported in the Statement of Activities, such as compensated absences, pensions, OPEB liabilities, long term landfill liabilities and long term interest payable, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This represents the difference in those items from the prior year.

Net Pension Liability	(320,078)	
Accrued Interest Payable	13,380	
Landfill Liability	31,044	
OPEB Liability	(381,590)	
Compensated Absence Payable	<u>(7,166)</u>	
Net Effect of Reporting Other Items		<u>(664,410)</u>

Change in net position of governmental activities \$ 11,821

Town of Newbury, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2017

	<u>Ambulance</u>
Assets	
Current:	
Receivables, Net of Allowance for Uncollectibles:	
User Charges	\$ 215,296
Due from Other Fund	79,902
Noncurrent:	
Assets Being Depreciated, Net	<u>87,871</u>
Total Assets	<u>383,069</u>
Liabilities	
Current:	
Capital Lease Payable	<u>67,304</u>
Total Liabilities	<u>67,304</u>
Net Position	
Net Investment in Capital Assets	20,567
Restricted for:	
Encumbrances	1,620
Unrestricted	<u>293,578</u>
Total Net Position	<u><u>\$ 315,765</u></u>

Town of Newbury, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2017

	<u>Ambulance</u>
Operating Revenues:	
Charges for Services	\$344,073
	<hr/>
Total Operating Revenues	344,073
	<hr/>
Operating Expenditures:	
General Services	172,086
Depreciation	10,338
	<hr/>
Total Operating Expenditures	182,424
	<hr/>
Operating Income	161,649
	<hr/>
Other Financing Sources (Uses):	
Capital Contributions	15,901
Transfers Out	(19,704)
	<hr/>
Total Other Financing Sources (Uses)	(3,803)
	<hr/>
Net Income	157,846
	<hr/>
Total Net Position Beginning	157,919
	<hr/>
Total Net Position Ending	\$315,765
	<hr/> <hr/>

Town of Newbury, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2017

	<u>Ambulance</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 251,065
Payments to Employees and Others	<u>(172,086)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>78,979</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfer to Other Funds	<u>(19,704)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(19,704)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	59,275
Cash and Cash Equivalents, Beginning	<u>20,627</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 79,902</u></u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	161,649
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	10,338
(Increase) Decrease in Assets:	
Accounts Receivable - Customer	<u>(93,008)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 78,979</u></u>

Town of Newbury, Massachusetts
Statement of Fiduciary Net Position
Fiduciary Funds
Fiscal Year Ended June 30, 2017

	Other Post Employment Benefits <u>Trust</u>
Assets	
Cash and Deposits	\$ 136,654
 Total Assets	 \$ 136,654
	<hr/>
Liabilities	\$ -
	<hr/>
Total Liabilities	-
	<hr/>
Net Position Restricted for Post Employment Benefits Other than Pensions	 \$ 136,654
	<hr/>

Town of Newbury, Massachusetts
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Other Post Employment Benefits <u>Trust</u>
Additions:	
Employer and Employee Contributions	\$ 254,364
Net Investment Income	<u>7,416</u>
Total Additions	<u>261,780</u>
 Deductions:	
Trust Distributions - Premiums	<u>229,364</u>
 Change in Net Position	<u>32,416</u>
 Net Position Restricted for Post Employment Benefits Other than Pensions	
Beginning of the Year	<u>104,238</u>
 End of the Year	<u><u>\$ 136,654</u></u>

I **Summary of Significant Accounting Policies**

The accounting policies of the Town of Newbury, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2017, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

The more significant accounting policies of the Town are summarized below.

(A) **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) **Government-Wide and Fund Financial Statements**

The **government-wide financial statements** (i.e., the **statement of net position** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities are supported by taxes and intergovernmental revenues.

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

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

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

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

(C) Pensions

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 Essex Regional Retirement System and additions to and deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(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, as are fiduciary fund financial statements. 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.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. All other revenues are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

General Fund – This is the Town's general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

Betterment Fund – This fund is used to capture the betterment accounts receivable and related revenues and fund balances. The revenues in the betterment fund are utilized to pay betterment related debt service costs.

The nonmajor governmental funds consists of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds

column on the governmental funds financial statements. The following types are funds that are included in the nonmajor category:

The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The permanent fund is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following proprietary fund:

Ambulance Fund – used to account for Ambulance Services.

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

The following fiduciary fund types are reported:

The other postemployment benefit trust fund is used to accumulate resources for future other postemployment benefits (OPEB) liabilities.

The private-purpose trust fund is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other government. Some of these trust have donor restrictions and trustee policies that do not allow the endowment portion to be spent.

The agency fund is used to account for assets held in a purely custodial capacity.

(E) Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Equity

i Deposits and Investments

The Town's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or

unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Depository Trust ('MMDT').

Also, certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which the total property tax assessment can be increased to 2.5% of the preceding year's levy plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 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 cost 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.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Equipment	5-20
Improvements	20
Infrastructure	20-50
Vehicles	5-20

iv. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that are not considered "available". The government wide financial statements (statement of net position) reflect deferred outflows of resources related to a debt refunding issue and deferred inflows and outflows of resources related to pensions.

v. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

vi. Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below.

1. Nonspendable, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. Restricted, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation,

3. Committed, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town's highest level of decision-making authority),

4. Assigned, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and

5. Unassigned, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Board of Selectmen is the highest level of decision making authority in the Town. Committed fund balance cannot be used for any other purposes without formal vote taken by the Board of Selectmen.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>Betterment Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	\$ -	\$ -	\$ 11,957	\$ 11,957
Total Nonspendable	<u>-</u>	<u>-</u>	<u>11,957</u>	<u>11,957</u>
Restricted for:				
General Government	-	-	944,176	944,176
Public Safety	-	-	145,012	145,012
Culture and Recreation	-	-	440,624	440,624
Public Works	-	1,529,643	11,287	1,540,930
Human Services	-	-	92,288	92,288
Total Restricted	<u>-</u>	<u>1,529,643</u>	<u>1,633,387</u>	<u>3,163,030</u>
Assigned to:				
General Government	620,607	-	-	620,607
Public Safety	474,768	-	-	474,768
Reserve for Expenditures	193,500	-	-	193,500
Public Works	340,888	-	-	340,888
Human Services	5,840	-	-	5,840
Culture and Recreation	4,186	-	-	4,186
Total Assigned	<u>1,639,789</u>	<u>-</u>	<u>-</u>	<u>1,639,789</u>
Unassigned	<u>2,396,733</u>	<u>-</u>	<u>(531)</u>	<u>2,396,202</u>
Total Fund Balances	<u>\$ 4,036,522</u>	<u>\$ 1,529,643</u>	<u>\$ 1,644,813</u>	<u>\$ 7,210,978</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that "cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund".

"The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth".

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$130,889. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

vii. Compensated Absences

The vacation and sick leave policies of the Town vary between departments because of various contractual agreements.

In general, employees are entitled to ten vacation days for the first through fourth year of employment. For the fifth through ninth year of employment, three weeks of vacation is allowed. Employees with ten or more years of employment are allowed four weeks of vacation. Employees may carry forward unused vacation time into the next fiscal year as long as it is used by September 30th. The accumulated vacation liability as of June 30, 2017 is reflected in the accompanying financial statements.

Sick leave is accumulated at the rate of 10 hours per month with the maximum accumulation of 960 hours. Sick leave buy back is not allowed upon employee retirement or termination. As a result, an accumulated sick leave benefit liability does not exist as of June 30, 2017.

viii. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and in the fund financial statements for proprietary fund types.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Issuance costs are reported as debt service expenditures.

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

ix. Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

x. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial statements.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance or retained earnings. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2017 adjusted for any special Town meeting votes applicable to fiscal 2017 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles basis (fund financial statements) for the year ended June 30, 2017.

	<u>Revenues</u>
As Reported Budget Basis	\$ 17,995,014
Adjustments:	
Sixty Day Accrual - Net	45,032
Subsidies from Massachusetts Water Pollution Abatement Trust	209,600
Other Adjustments	709
As Reported GAAP (Fund Financial) Statement	<u>\$ 18,250,355</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 19,016,881
Adjustments:	
Beginning Encumbrances	1,158,381
Ending Encumbrances	(1,446,289)
Interest Expense Paid from Subsidies from Massachusetts Water Pollution Abatement Trust	209,600
As Reported GAAP (Fund Financial) Statement	<u>\$ 18,938,573</u>

III Detailed Notes on All Funds

A. Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in an event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, \$3,079,005 of the Town's bank balance of \$7,303,231 was exposed to credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 3,079,005</u>
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Investments

As of June 30, 2017, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
U.S. Treasuries	\$ 96,920	96,920	-	-
Stocks and Equities	136,436	-	136,436	-
Corporate Bonds	29,964	-	29,964	-
Bonds	50,521	50,521	-	-
Certificates of Deposit	45,088	45,088	-	-
Total	<u>\$ 358,929</u>	<u>\$ 192,529</u>	<u>\$ 166,400</u>	<u>\$ -</u>
Other Investments:				
Cash and Equivalents	\$ 17,601			
Money Market	9,569			
MMDT	40,737			
Total Other Investments	<u>67,908</u>			
Total Investments	<u>\$ 426,837</u>			

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have a formal policy relating to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer (State law limits the amount that may be deposited in a financial institution without collateralization).

Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town has the ability to access.

Level 2 -Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Towns' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Town's own data.

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

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

		<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	<u>Total</u>			
Investment by Fair Value Level:				
U. S. Treasuries	\$ 96,920	\$ 96,920	\$ -	\$ -
Corporate Bonds	29,964	29,964	-	-
Certificate of Deposit	45,088	45,088	-	-
Stock and Equities	136,435	136,435	-	-
Other	50,521	50,521	-	-
Total Assets in the Fair Value Hierarchy	<u>358,928</u>	<u>\$ 358,928</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Not Subject to Fair Value Hierarchy reporting:				
Cash and Equivalents	17,603			
Money Market	9,569			
MMDT	40,737			
Total Investments	<u>\$ 426,837</u>			

The investments classified in level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities.

B. Capital Assets

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

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Government Activities:				
Assets Not Being Depreciated:				
Land	\$ 12,337,046	\$ -	\$ -	\$ 12,337,046
Construction in Progress	411,897	92,919	(336,849)	167,967
Total Capital Assets not Being Depreciated	<u>12,748,943</u>	<u>92,919</u>	<u>(336,849)</u>	<u>12,505,013</u>
Assets Being Depreciated:				
Buildings	26,040,823	699,360	-	26,740,183
Improvements Other Than Buildings	421,702	-	-	421,702
Infrastructure	47,571,897	-	-	47,571,897
Equipment	1,695,424	275,944	(15,000)	1,956,368
Vehicles	1,587,603	229,818	(113,042)	1,704,379
Total Capital Assets Being Depreciated	<u>77,317,449</u>	<u>1,205,121</u>	<u>(128,042)</u>	<u>78,394,528</u>
Less Accumulated Depreciation for:				
Buildings	(11,267,991)	(534,935)	-	(11,802,926)
Improvements Other Than Buildings	(345,925)	(13,790)	-	(359,715)
Infrastructure	(15,165,492)	(354,407)	-	(15,519,899)
Equipment	(988,489)	(96,144)	15,000	(1,069,633)
Vehicles	(1,214,009)	(76,861)	113,042	(1,177,828)
Total Accumulated Depreciation	<u>(28,981,906)</u>	<u>(1,076,137)</u>	<u>128,042</u>	<u>(29,930,001)</u>
Capital Assets Being Depreciated, Net	<u>48,335,543</u>	<u>128,984</u>	<u>-</u>	<u>48,464,527</u>
Governmental Activities Capital Assets, Net	<u>\$ 61,084,486</u>	<u>\$ 221,903</u>	<u>\$ (336,849)</u>	<u>\$ 60,969,540</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 28,297
Public Safety	56,205
Education	412,712
Highways and Public Works	478,972
Culture and Recreation	99,952
Total Governmental Activities Depreciation Expense	<u>\$ 1,076,137</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business Activities:				
Assets Being Depreciated:				
Vehicles	\$ 103,378	\$ -	\$ -	\$ 103,378
Total Capital Assets Being Depreciated	<u>103,378</u>	<u>-</u>	<u>-</u>	<u>103,378</u>
Less Accumulated Depreciation for:				
Vehicles	(5,169)	(10,338)	-	(15,507)
Total Accumulated Depreciation	<u>(5,169)</u>	<u>(10,338)</u>	<u>-</u>	<u>(15,507)</u>
Capital Assets Being Depreciated, Net	<u>98,209</u>	<u>(10,338)</u>	<u>-</u>	<u>87,871</u>
Business Activities Capital Assets, Net	<u>\$ 98,209</u>	<u>\$ (10,338)</u>	<u>\$ -</u>	<u>\$ 87,871</u>

Depreciation expense was charged to functions as follows:

Business Activities	
Ambulance Enterprise	\$ 10,338
Total Business Activities Depreciation Expense	<u>\$ 10,338</u>

C. Accounts Receivable

The accounts receivable on the balance sheet are listed below by levy.

Governmental Activities:

Current:

Property Taxes Receivable:

Real Estate Taxes

2017	\$ 105,008	
Total Real Estate Taxes		<u>\$ 105,008</u>

Personal Property Taxes

2017 1,265

2016 and Prior 3,268

Total Personal Property Taxes 4,533

Total Property Taxes Receivable \$ 109,541

Tax Liens \$ 121,502

C. Accounts Receivable (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2017	\$	78,192	
2016		10,909	
2015		4,834	
2014		4,027	
2013 and Prior		45,531	
Total Motor Vehicle Excise Taxes			\$ 143,493

Boat Excise

2017		1,090	
2016 and Prior		2,458	
Total Boat Excise			3,548
Total Excise Taxes Receivable			\$ 147,041

Intergovernmental :

Massachusetts Highway Department - Chapter 90	\$	86,336	
Total Intergovernmental			\$ 86,336

Special Assessments:

Betterments Added to Taxes	\$	12,487	
Total Special Assessments			\$ 12,487

Special Assessments:

Deferred Betterments			\$ 6,635,866
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Business Type Activities:

Ambulance:

User Charges	\$	215,296	
Total Ambulance			\$ 215,296
Total Business Type Activities			\$ 215,296

D. Intergovernmental

The general fund Intergovernmental accounts receivable, Massachusetts School Building Authority, (when applicable) relates to the total amount due to the Town for school building projects. The amount due to the Town is determined by the Massachusetts Department of Education under Chapter 645 of the Acts of 1948. The Town either constructed a new school building or made major improvements to an existing school building and the Massachusetts School Building Authority (M.S.B.A.) entered into a grant agreement with the Town to reimburse the Town for a predetermined percentage of allowable costs and interest expense. The reimbursement to the Town for its portion of the debt service and allowable costs is made in equal installments over the life of the bond. The MSBA derives its revenues from a percentage of the Massachusetts sales tax. The Town's reimbursement is subject to the availability of funds at the MSBA.

The Intergovernmental receivable in the non major funds column represents the amount due from the Massachusetts Highway Department for highway projects.

E. Short Term Debt

There was no short term debt activity during the current year.

F. Long Term Debt

General obligation bonds outstanding at June 30, 2017, bear interest at various rates.

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2017:

<u>Governmental Activities:</u>		Original	Interest Rates	Final	Balance			Balance
<u>General Obligation Bond</u>	<u>Sale Date</u>	<u>Borrowing</u>	<u>to Maturities</u>	<u>Maturity</u>	<u>June 30, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
MWPAT - Sewer	11/23/2004	\$ 3,820,831	Various	8/01/2034	\$ 2,850,000	\$ -	\$ 105,000	\$ 2,745,000
MWPAT - Water	11/23/2004	4,322,672	Various	8/01/2034	2,055,935	-	196,654	1,859,281
MWPAT - Sewer	12/14/2006	2,800,000	Various	7/15/2036	1,990,804	-	91,565	1,899,239
Sewer	11/1/2005	1,250,000	4.00% ~ 3.75%	6/30/2022	455,000	-	75,000	380,000
Water	11/1/2005	715,000	4.00% ~ 3.75%	6/30/2022	265,000	-	45,000	220,000
Transfer Station	11/1/2005	1,140,000	4.00% ~ 3.75%	6/30/2022	480,000	-	80,000	400,000
MWPAT - Water	12/18/2007	451,487	Various	7/15/2024	239,023	-	26,558	212,465
Library & Recreation	6/30/2011	832,400	2.03%	6/30/2020	300,000	-	90,000	210,000
Land Acquisition	6/30/2011	765,000	2.03%	6/30/2020	300,000	-	80,000	220,000
Land Closure	6/30/2011	2,196,000	2.03%	6/30/2020	955,000	-	235,000	720,000
Sewer	6/30/2011	208,000	2.03%	6/30/2020	80,000	-	20,000	60,000
Total Governmental Activities					\$ 9,970,762	\$ -	\$ 1,044,777	\$ 8,925,985

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,049,034	\$ 276,889	\$ 1,325,922
2019	1,043,820	244,065	1,287,885
2020	1,053,078	211,196	1,264,274
2021	672,337	177,520	849,856
2022	686,597	151,035	837,632
Fiscal 2023-2027	2,015,121	465,611	2,480,732
Fiscal 2028-2032	1,333,834	212,094	1,545,928
Fiscal 2033-2037	<u>1,072,165</u>	<u>25,358</u>	<u>1,097,523</u>
	<u>\$8,925,985</u>	<u>\$1,763,768</u>	<u>\$10,689,753</u>

On June 30, 2011 the Town issued \$5,919,000 of Refunding Bonds with an average interest rate of 2.03% to refund \$5,690,000 of outstanding General Obligation Bonds with an average interest rate of 4.65 %. The proceeds from this refunding issue were deposited into a bank account as of June 30, 2011. \$5,876,638 of this amount was reserved as of June 30, 2011 to be used to pay principal and interest costs of the refunded debt due on August 1, 2011. The net savings from this refunding issue is \$412,229. The principal and interest costs on the refunded debt and the refunding debt are detailed below:

	<u>Refunded Bonds Principal and Interest</u>	<u>Refunding Bonds Principal and Interest</u>
2012	\$1,374,475	\$1,312,074
2013	1,291,530	1,239,903
2014	1,179,010	1,121,659
2015	568,335	525,344
2016	527,410	490,702
2017	477,200	436,567
2018	458,200	418,345
2019	439,000	395,327
2020	<u>419,600</u>	<u>382,610</u>
	<u>\$6,734,760</u>	<u>\$6,322,531</u>

(c) Bond Authorizations

During the fiscal year ended June 30, 2017, the following debt authorization were voted by the Town:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
January 31, 2017	New Police Station and Renovation of Existing Town Hall	<u>\$6,500,000</u>
	Total	<u>\$6,500,000</u>

(d) Changes in the government's long-term liabilities for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Governmental Activities:					
Bonds Payable	\$ 9,970,762	\$ -	\$ 1,044,777	\$ 8,925,985	\$ 1,049,034
Compensated Absences	17,569	7,168	-	24,737	52,935
Net Pension Liability	7,160,105	366,260	-	7,526,365	-
Landfill Liability	729,041	-	31,044	697,997	-
Other Post Employment Benefits	2,953,302	381,590	-	3,334,892	-
Total Governmental Activities	<u>\$ 20,830,779</u>	<u>\$ 755,018</u>	<u>\$ 1,075,821</u>	<u>\$ 20,509,976</u>	<u>\$ 1,101,969</u>
Business Type Activities:					
Lease Payable	\$ 86,443	\$ -	\$ 19,139	\$ 67,304	\$ 19,857
Total Business Type Activities	<u>\$ 86,443</u>	<u>\$ -</u>	<u>\$ 19,139</u>	<u>\$ 67,304</u>	<u>\$ 19,857</u>

G. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Transfers made during the year were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 637,261	\$ (32,847)	\$ 604,414
Betterment	-	(609,607)	(609,607)
Non-Major Governmental	7,847	(7,993)	(146)
Proprietary Fund	-	(19,704)	(19,704)
OPEB Trust	25,000	-	25,000
Total	<u>\$ 670,108</u>	<u>\$ (670,151)</u>	<u>\$ (43)</u>

IV Other Information

Pension Plans

A. General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a stand-alone financial report that is available to the public at http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

Benefits Provided

The Essex Regional Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
<u>Hired on or before April 1 2012</u>			
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age and years of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
<u>Hired after April 1 2012</u>			
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

Active members of the Essex Regional Retirement System contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirement of plan members is

determined by M.G.L. Chapter 32. The Town's contribution requirement is established by and may be amended by the Essex Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2017 was 22.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$565,999 for the year ending June 30, 2017.

B. 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 \$7,526,365 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2016, the Town's proportion was 1.953%.

For the year ended June 30, 2017, the Town recognized pension expense of \$886,077. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 135,538
Change in assumptions	318,975	-
Net differences between projected and actual earnings on pension plan investments	329,693	-
Changes in proportion and differences between contributions and proportionate share of contributions	95,422	54,042
Contributions subsequent to the measurement date	-	-
	<u>\$ 744,090</u>	<u>\$ 189,580</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2017	\$164,437
2018	164,437
2019	171,591
2020	47,884
2021	<u>6,161</u>
Total	<u>\$554,510</u>

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 that was updated to December 31, 2016.

Valuation Date	January 1, 2016														
Actuarial Cost Method	Entry age normal cost method														
Amortization Method	7.41% contribution increases for five years,, 6.36% for one year and 4.00% increases thereafter until final year which will be 3.89%%														
Remaining Amortization Period	18 years for the fresh start base														
Asset Valuation Method	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. (same as prior valuation)														
Salary Increases	<table><tr><td>In Year</td><td></td></tr><tr><td>1</td><td>7.50%</td></tr><tr><td>2</td><td>6.50%</td></tr><tr><td>3</td><td>6.00%</td></tr><tr><td>4</td><td>5.50%</td></tr><tr><td>5</td><td>5.00%</td></tr><tr><td>Thereafter</td><td>3.75%</td></tr></table>	In Year		1	7.50%	2	6.50%	3	6.00%	4	5.50%	5	5.00%	Thereafter	3.75%
In Year															
1	7.50%														
2	6.50%														
3	6.00%														
4	5.50%														
5	5.00%														
Thereafter	3.75%														
Cost of Living Adjustments	3.00% of first \$13,000 (granted annually)														
Rates of Retirement	Varies based upon age for general employees, police and fire employees.														
Rates of Disability	Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and Group 2 and 10% ordinary and 90% accidental for Group 4.														
Mortality Rates Were Based on the Tables Noted Below:															
Pre-Retirement	The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used. (Prior valuation used the same assumption))														
Disabled Retiree	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time. (Prior valuation used the same assumption))														
Investment Rate of Return/Discount Rate	7.75.% per year (8.00% in prior valuation)														

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table (sex distinct) projected with Scale BB and the RP-2000 Healthy Annuitant Mortality Table for healthy annuitants (sex distinct) projected with Scale BB set forward 2 years were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

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

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Global Equities:		
Large Cap Equities	14.50%	7.50%
Mid/Small Cap Equities	3.50%	7.75%
International Equities	16.00%	7.83%
Emerging Market Equities	6.00%	9.61%
Core Fixed Income:		
Core Bonds	5.00%	4.00%
20+ Year Treasury STRIPS	5.00%	3.75%
TIPS	3.00%	3.75%
Value-Added Fixed Income:		
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/Portfolio Completion	13.00%	6.48%
Total Target Allocation/Total Rate of Return	<u>100.00%</u>	<u>7.80%</u>

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2016 (net of investment expenses) was 7.80%. (1.04% for December 31, 2015). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.75% (8.00% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System 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 of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's share of the net pension liability of the Essex Regional Retirement System, calculated using the discount rate of 7.75%, as well as what 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%)	Discount Rate (7.75%)	1% Increase (8.75%)
Town's proportionate share of the Net Pension Liability	\$9,224,843	\$7,526,365	\$6,269,786

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Essex Regional Retirement System financial report. The System issues a stand-alone financial report that can be obtained through the Systems website http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf

C. Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which became effective for the current reporting period. GASB Statement #74 relates to reporting requirements of the Town's OPEB Trust fund. The net other post-employment benefits liability reported in the GASB Statement #74 disclosures differs from the net other post-employment benefits obligation amount reported in the Town's statement of net position. The reporting requirements related to the Town's statement of net position are currently guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the Town's net other post-employment benefits liability is being "phased in" over a thirty year period. Concurrent with GASB Statement #74, the GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement #75 (effective for the June 30, 2018 reporting period) which eliminates the thirty year phase in of the other post-employment benefits liability. Therefore, the net other post employment liability reported in the Town's June 30, 2018 statement of net position will agree with the GASB Statement #74 disclosures related to the Town's OPEB Trust.

Plan Description.

Plan Administration: The Town administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the Town. Management of the plan is vested by the Town.

Plan Membership: At June 30, 2017, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	45
Active Plan Members	<u>51</u>
Total	<u>96</u>

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health care and life insurance benefits. Benefits are provided through a third party insurer.

Contributions: The Town pays premiums based on years of service and date of hire. The contribution requirements of plan members and the Town are established by the Town and may be amended from time to time. The Town pays 75% of the total premiums for retirees' health insurance and 75% of the premiums for \$2,000 life insurance policy.

Investments

Investment Policy: The plan's policy in regard to the allocation of invested assets is approved and may be amended by the Town. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity - Large Cap	20.00%
Domestic Equity - Small/Mid Cap	10.00%
International Equity - Developed Market	10.00%
International Equity - Emerging Market	5.00%
Domestic Fixed Income	25.00%
International Fixed Income	10.00%
Alternatives	20.00%
Real Estate	0.00%
Cash	0.00%
Total	<u>100.00%</u>

Concentrations

The OPEB plan did not hold investments in any one organization that represent 5 percent or more of the OPEB plan's fiduciary net position.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 7.05%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the Net OPEB liability of the Town at June 30, 2017 were as follows:

Total OPEB Liability	\$6,514,763
Plan Fiduciary Net Position	(136,654)
Net OPEB Liability	<u><u>\$6,378,109</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	2.10%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 % as of June 30, 2017 and for future periods
Salary Increases	3.00 % as of June 30, 2015 and for future periods
Investment Rate of Return	7.05 %, net of OPEB plan investment expense, including inflation
Health Cost Trend Rates	5.00%

Mortality Rates were based on the tables noted below:

Healthy:

Pre-Retirement	RP-2000 Mortality Table projected to 2017
Post-Retirement	RP-2000 Mortality Table projected to 2017

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 table below:

<u>Assets Class</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity - Large Cap	4.00%
Domestic Equity - Small/Mid Cap	6.00%
International Equity - Developed Market	4.50%
International Equity - Emerging Market	7.00%
Domestic Fixed Income	2.00%
International Fixed Income	3.00%
Alternatives	6.50%
Real Estate	6.25%
Cash	0.00%

Discount rate: The discount rate used to measure the total OPEB liability was 4.25 percent (4.0% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that the Town contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore a blended long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease <u>3.25%</u>	Discount Rate <u>4.25%</u>	1% Increase <u>5.25%</u>
Net OPEB Liability (asset)	\$ 7,315,766	\$ 6,378,109	\$ 5,006,434

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u>4.00%</u>	Healthcare Cost Trend <u>5.00%</u>	1% Increase <u>6.00%</u>
Net OPEB Liability (asset)	\$ 5,185,382	\$ 6,378,109	\$ 7,910,577

Employer's Reporting (GASB Statement #45)

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2017, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$535,754
Interest on Net OPEB Obligation	118,132
Adjustment to Annual Required Contribution	(164,220)
Amortization of Actuarial (Gains) / Losses	146,288
Annual OPEB Cost (Expense)	635,954
Contributions Made	(229,364)
Contributions Made to OPEB Trust	(25,000)
Increase in Net OPEB Obligation	381,590
Net OPEB Obligation (NOO)- Beginning of Year	2,953,302
Net OPEB Obligation (NOO)- End of Year	<u><u>\$3,334,892</u></u>

The Town's annual required contribution, the percentage of the annual required contribution contributed to the plan and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$492,339	19%	\$2,595,900
2016	\$513,588	17%	\$2,953,302
2017	\$535,754	16%	\$3,334,892

Funded Status and Funding Progress. As of July 1, 2014, the Town had funded \$50,000 towards the OPEB Liability. The Actuarial Accrued Liability (AAL) for benefits was \$5,340,146, and the actuarial value of assets was \$50,000, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$5,290,146. The actuarial value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 1%. The covered payroll as of the valuation date was \$2,312,786. Subsequent to the most recent valuation date, the Town made contributions to and had earnings in the OPEB trust. The balance in the OPEB trust as of June 30, 2017, was \$136,654. The plan assets are recorded and reported in the Town's fiduciary fund financial statements.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members). The projections consider the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of 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, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. The actuarial value of assets is determined using market value. The UAAL is being amortized over a thirty year amortization period.

D. Subsequent Year Authorizations

The Town adopted a fiscal 2018 operating and capital budget of \$19,571,690. Fiscal 2018 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid	
and Non-Property Tax Revenue	\$18,463,502
Other Available Funds	296,650
Fund Balance Restricted:	
Betterment Fund	607,106
Enterprise Funds	204,432
Total Budget	<u><u>\$19,571,690</u></u>

E. Solid Waste Landfill Closure and Postclosure Care Costs

State and Federal regulations require that landfill closures meet certain standards. Among the standards is the requirement to monitor the landfill for 30 years. Accounting principles generally accepted in the United States of America require recognition of a liability for closure and postclosure costs based on landfill capacity used to date. The landfill capacity used to date (as of June 30, 2017) is 100%. The Town's estimates for monitoring costs are included as a liability in the Statement of Net Position.

F. Significant Commitments and Contingencies

Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose.

Pending Litigation

There is currently ongoing litigation against the Town for approximately \$520,000. The Town is vigorously defending itself in this case and believes the outcome relating to its defense will be in favor of the Town.

G. Implementation of New GASB Pronouncements

During fiscal year 2017, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement required new disclosures and required supplementary information schedules related to the Town's Other Post-Employment Benefits Trust Fund.
- The GASB issued Statement No. 77, Tax Abatement Disclosures, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.

- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal years beginning after December 15, 2016.
- The GASB issued Statement No 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 87, *Leases* which is required to be implemented in fiscal years beginning after December 15, 2019.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

H. Prior Period Adjustment

The prior period adjustment shown in the financial statements, in the amount of \$7,647, relates to a correction of a prior period amount.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Newbury, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues and Expenditures - Budget and Actual
June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<u>Revenues</u>				
Property Taxes	\$ 14,867,369	\$ 14,867,369	\$ 15,042,886	\$ 175,517
Tax Liens	-	-	17,046	17,046
Excises	1,165,000	1,165,000	1,240,614	75,614
Penalties and Interest	36,000	36,000	32,865	(3,135)
Licenses and Permits	350,000	350,000	386,323	36,323
Fees and Other Departmental	120,000	120,000	153,804	33,804
Fines and Forfeits	110,000	110,000	111,761	1,761
Intergovernmental	815,136	815,136	874,993	59,857
Earnings on Investments	18,000	18,000	21,247	3,247
Miscellaneous	59,000	59,000	113,475	54,475
Total Revenues	17,540,505	17,540,505	17,995,014	454,509
<u>Expenditures</u>				
General Government	1,812,490	2,028,200	1,828,652	199,548
Public Safety	2,598,918	3,151,860	3,002,720	149,140
Education	9,341,741	9,338,235	9,332,927	5,308
Highway and Public Works	1,436,908	1,721,908	1,643,268	78,640
Health and Human Services	288,742	300,061	261,367	38,694
Culture and Recreation	252,230	252,229	249,284	2,945
Intergovernmental	142,919	142,919	134,864	8,055
Employee Benefits	1,500,551	1,487,979	1,418,786	69,193
Debt Service	1,145,014	1,145,014	1,145,013	-
Total Expenditures	18,519,513	19,568,407	19,016,881	551,525
Excess (Deficiency) of Revenues Over Expenditures	(979,008)	(2,027,902)	(1,021,868)	1,006,034
Other Financing Sources (Uses):				
Transfers In	776,127	776,127	795,831	19,704
Other Available Funds	327,881	1,376,775	1,376,775	-
Transfers Out	(125,000)	(125,000)	(132,847)	(7,847)
Total Other Financing Sources (Uses)	979,008	2,027,902	2,039,759	11,857
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	\$ -	\$ (0)	\$ 1,017,892	\$ 1,017,891

Required Supplementary Information
Schedule of the Town of Newbury, Massachusetts Proportionate Share of the Net Pension Liability
Essex Regional Retirement System **
Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportionate share of net pension liability (asset) (%)	1.953000%	1.971000%	1.910000%	1.908699%
Town's proportionate share of net pension liability (asset) (\$)	7,526,365	6,617,673	6,480,618	6,446,256
Town's covered-employee payroll	2,549,341	2,320,540	2,232,466	2,351,330
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	295.23%	285.18%	290.29%	274.15%
Plan fiduciary net position as a percentage of the pension liability	51.10%	51.01%	52.27%	50.42%

* Historical information prior to implementation of GASB 67/68 is not required.

** The amounts presented for each fiscal year were determined as of December 31.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Newbury, Massachusetts' Contributions
Essex Regional Retirement System
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 565,999	\$ 541,397	\$ 489,986	\$ 466,828	\$ 463,795	\$ 440,715	\$ 385,515	\$ 352,095	\$ 320,454	\$ 334,180
Contributions in relation to the contractually required contribution	<u>(565,999)</u>	<u>(541,397)</u>	<u>(489,986)</u>	<u>(466,828)</u>	<u>(463,795)</u>	<u>(440,715)</u>	<u>(385,515)</u>	<u>(352,095)</u>	<u>(320,454)</u>	<u>(334,180)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,549,341	\$ 2,320,540	\$ 2,232,466	\$ 2,351,330	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"</i>					
Contributions as a percentage of covered-employee payroll	22.20%	23.33%	21.95%	19.85%						

See Notes to the Required Supplementary Information

Required Supplementary Information
Town of Newbury, Massachusetts
Schedule of Funding Progress & Employer's Contributions - Other Post Employment Benefits
June 30, 2017

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
07/01/2008	\$0	\$3,791,377	\$3,791,377	0%	\$2,402,046	158%
07/01/2011	0	4,673,482	4,673,482	0%	2,180,023	214%
07/01/2014	50,000	5,340,146	5,290,146	1%	N/A	N/A

Subsequent to the valuation date, the Town made contributions to and had investment earnings in the OPEB fund. As of June 30, 2017, the value of these assets was \$136,654.

Schedule of Employer's Contributions

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
2015	\$492,339	19%	\$2,595,900
2016	\$513,588	17%	\$2,953,302
2017	\$535,754	16%	\$3,334,892

See Notes to the Required Supplementary Information

Town of Newbury, Massachusetts
Required Supplementary Information
Valuation Details - Other Post Employment Benefits
June 30, 2017

Valuation Date	July 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	24 years as of July 1, 2014
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.0%, Per Annum
Medical/Drug Cost Trend Rate	5.0% for 2014 through 2020
General Inflation Assumption	2.5% Per Annum
Annual Compensation Increases	3.0% Per Annum

Plan Membership:

Current retirees, beneficiaries, and dependents	45
Current active members	<u>51</u>
Total	96

See Notes to the Required Supplementary Information

Town of Newbury, Massachusetts
Required Supplementary Information
Schedule of Changes In the Net OPEB Liability and Related Ratios
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total OPEB liability										
Service cost	\$ 309,897	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it become available"</i>								
Interest	270,314									
Benefit payments	(229,364)									
Net change in total OPEB liability	<u>350,847</u>									
Total OPEB liability - beginning	<u>6,163,916</u>									
Total OPEB liability - ending (a)	<u><u>\$ 6,514,763</u></u>									
Plan Fiduciary net position										
Contributions - employer	\$ 25,000									
Net investment income	<u>6,300</u>									
Net change in plan fiduciary net position	<u>31,300</u>									
Plan fiduciary net position - beginning	<u>105,354</u>									
Plan fiduciary net position - ending (b)	<u><u>\$ 136,654</u></u>									
Town's net OPEB liability - ending (a) - (b)	<u><u>\$ 6,378,109</u></u>									
Plan fiduciary net position as a percentage of the total OPEB liability	2.10%									
Covered-employee payroll	N/A									
Town's net OPEB liability as a percentage of covered - employee payroll	N/A									

See Notes to the Required Supplementary Information

Town of Newbury, Massachusetts
Required Supplementary Information
Schedule of Contributions (GASB 74)
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial determined contribution	\$ 674,524	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it become available"</i>								
Contributions in relating to the actuarially determined contribution		254,364								
Contribution deficiency (excess)		<u>\$ 420,160</u>								
Covered-employee payroll		N/A								
Contributions as a percentage of covered-employee payroll		N/A								

Notes to Schedule

Valuation date:
June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Inflation	2.50 % as of June 30, 2017 and for future periods
Healthcare cost trend rates	5.00%
Salary increases	3.00 % annually as of June 30, 2015 and for future periods
Investment rate of return	7.05 %, net of OPEB plan investment expense, including inflation
Mortality	
Pre-Retirement	RP-2000 Mortality Table Projected to 2017
Post Retirement	RP-2000 Mortality Table Projected to 2017

See Notes to the Required Supplementary Information

Town of Newbury, Massachusetts
Required Supplementary Information
Schedule of Investment Returns (GASB 74)
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	7.05%	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it become available"</i>								

See Notes to the Required Supplementary Information

Town of Newbury, Massachusetts
Notes to the Required Supplementary Information
June 30, 2017

(I) Budgetary Information

Budget requests are prepared for the various Town Departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

(II) Pension Plans

i. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The Town is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

The Town, also, provides benefits to teachers through 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. The Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contributions. Therefore, the Town has a special funding situation.

ii. Funding Plan

Active members of the Essex Regional Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Essex Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

iii. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in the valuation. The benefit features (i.e. retirement age, percentages used in calculation of pensions) changed for members hired on or after April 2, 2012.

iv. Change in Assumptions

Discount Rate:

The discount rate was lowered from 8.00% to 7.75%.

(III) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2017. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

i. Plan Description.

In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Essex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 51 active employees and 45 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

ii. Funding Policy

The Town pays 75% of the total premiums for health insurance and 75% of the premiums for a \$2,000 life insurance policy. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

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

Board of Selectmen
Town of Newbury
12 Kent Way
Suite 101
Byfield, MA 01922

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newbury, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Newbury, Massachusetts' basic financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
December 8, 2017