

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF SALISBURY, MASSACHUSETTS

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended June 30, 2018

Report on Internal Control
Over Financial Reporting and
on Compliance and Other Matters
Year Ended June 30, 2018



TOWN OF SALISBURY, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Salisbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 those 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2018 and the respective changes

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

Restatement of Prior Year Ending Balances

As more fully described in Note III. G, during the year ended June 30, 2018 the Town adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Previously, OPEB was accounted for under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The result of the adoption of GASB Statement No. 75 was to record a prior period restatement to eliminate the net OPEB obligation recorded in the prior year Town financial statements and record the net OPEB liability at June 30, 2017. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts 01801
February 19, 2019

Management's Discussion and Analysis

As the management of the Town of Salisbury, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018.

Financial Highlights

- During the year ended June 30, 2018 The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of the adoption of GASB Statement No. 75 was to record a prior period restatement to eliminate the net OPEB obligation recorded in the prior year Town financial statements and record the net OPEB liability at June 30, 2017.

All changes in net position discussions that follow have removed the impact of these adjustments from their analysis. The adjustments can be reviewed in more detail in Note III. G, to the financial statements.

- The Town's assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$39.5 million (*total net position*). Of this amount, over \$7.4 million represented net position of governmental activities and about \$32.1 million represented net position of the business-type activities.
- The Town's total net position increased by nearly \$2.0 million or approximately 5.3% year to year. Governmental activities increased net position by almost \$1.4 million, while the business-type activities increased net position by over \$0.6 million.
- The Town's Unassigned Fund Balance reported in the General Fund was over \$2.4 million (about 9.7% of General Fund expenditures); and the total fund balance in the General Fund was nearly \$3.0 million (about 12.0% of General Fund expenditures). The Town also operates two major funds in addition to the General Fund; the fund set up to account for the construction of the Town's Welcome Center has a restricted fund balance of about \$0.7 million and the Police Station Construction fund which is winding down and is expected to be removed for fiscal 2019 has a restricted balance of about \$23,000. The Town's aggregate Nonmajor funds include restricted balances of nearly \$1.1 million, unassigned deficits (to be funded from subsequent year grant receipts) of about \$157,000, and a small portion classified as nonspendable as corpus of endowment of about \$51,000.
- The Town's total long-term debt decreased by over \$1.3 million during the fiscal year as a result of anticipated scheduled maturities of principal.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, education, community development, health and human services, culture and recreation, fringe benefits, and interest expense. The business-type activities of the Town include water and sewer enterprise funds.

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar

information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided within the financial statements to facilitate this comparison.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Welcome Center, and Police Station Construction Fund which are presented as major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled Nonmajor Funds.

The Town adopts an annual legally appropriated budget for its General Fund and Water and Sewer Enterprise Funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes after the footnotes to the financial statements.

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

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

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

Government-wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Assets</u>						
Current and other assets	\$ 7,916,337	\$ 9,933,326	\$ 14,659,025	\$ 11,996,952	\$ 22,575,362	\$ 21,930,278
Capital assets, net	38,647,810	37,628,794	37,999,329	38,847,685	76,647,139	76,476,479
Total assets	46,564,147	47,562,120	52,658,354	50,844,637	99,222,501	98,406,757
<u>Deferred Outflows of Resources</u>	1,959,387	1,600,042	251,977	215,495	2,211,364	1,815,537
<u>Liabilities</u>						
Long-term liabilities	35,877,785	32,980,368	14,556,629	15,123,954	50,434,414	48,104,322
Other liabilities	1,130,671	4,112,129	5,799,885	3,623,225	6,930,556	7,735,354
Total liabilities	37,008,456	37,092,497	20,356,514	18,747,179	57,364,970	55,839,676
<u>Deferred Inflows of Resources</u>	4,065,623	613,366	458,867	82,609	4,524,490	695,975
<u>Net Position</u>						
Net investment in capital assets	23,326,810	20,554,730	22,789,663	23,911,942	46,116,473	44,466,672
Restricted	1,984,568	2,002,632	2,825,304	-	4,809,872	2,002,632
Unrestricted	(17,861,923)	(11,101,063)	6,479,983	8,318,402	(11,381,940)	(2,782,661)
Total Net Position	\$ 7,449,455	\$ 11,456,299	\$ 32,094,950	\$ 32,230,344	\$ 39,544,405	\$ 43,686,643

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$39.5 million (*total net position*). This reflects an increase from the preceding year by almost \$2.0 million.

By far the largest portion (\$46.1 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (over \$4.8 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is in deficit by almost \$11.4 million. This is primarily the result of the reporting for net pension and OPEB liabilities in the amount of about \$20.3 million since the implementation of the requirements under GASB 68 and GASB 75. These deficits are expected to increase in future years until the Town adopts a funding schedule for OPEB that is adequate.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,939,699	\$ 1,997,571	\$ 4,956,114	\$ 5,118,713	\$ 6,895,813	\$ 7,116,284
Operating grants and contributions	1,203,209	969,679	-	-	1,203,209	969,679
Capital grants and contributions	1,436,875	5,546,616	122,583	6,368	1,559,458	5,552,984
General revenues:						
Property taxes	20,381,163	19,030,658	-	-	20,381,163	19,030,658
Intergovernmental	899,946	874,736	-	-	899,946	874,736
Other	1,985,360	1,839,900	137,845	152,873	2,123,205	1,992,773
Total Revenues	27,846,252	30,259,160	5,216,542	5,277,954	33,062,794	35,537,114
<u>Expenses</u>						
General government	2,717,968	2,454,791	-	-	2,717,968	2,454,791
Public safety	7,118,866	7,181,320	-	-	7,118,866	7,181,320
Education	12,587,813	12,109,619	-	-	12,587,813	12,109,619
Public works	1,205,321	1,443,163	-	-	1,205,321	1,443,163
Health and human services	698,796	707,471	-	-	698,796	707,471
Culture and recreation	1,132,684	784,121	-	-	1,132,684	784,121
Community development	496,134	571,777	-	-	496,134	571,777
Interest expense	580,423	354,124	-	-	580,423	354,124
Water	-	-	2,135,844	2,670,623	2,135,844	2,670,623
Sewer	-	-	2,391,175	2,602,606	2,391,175	2,602,606
Total Expenses	26,538,005	25,606,386	4,527,019	5,273,229	31,065,024	30,879,615
Increase in net position before transfers	1,308,247	4,652,774	689,523	4,725	1,997,770	4,657,499
Transfers	60,000	-	(60,000)	-	-	-
Change in net position	1,368,247	4,652,774	629,523	4,725	1,997,770	4,657,499
Net position, beginning of year	11,456,299	6,803,525	32,230,344	32,225,619	43,686,643	39,029,144
Restatement for net OPEB liability	(5,375,091)	-	(764,917)	-	(6,140,008)	-
Net position, beginning of year, as restated (see Note III. G)	6,081,208	6,803,525	31,465,427	32,225,619	37,546,635	39,029,144
Net position, end of year	<u>\$ 7,449,455</u>	<u>\$ 11,456,299</u>	<u>\$ 32,094,950</u>	<u>\$ 32,230,344</u>	<u>\$ 39,544,405</u>	<u>\$ 43,686,643</u>

Governmental Activities.

Revenues

The Town relies heavily on property taxes, which during 2018 were over \$1.3 million greater than the prior year and made up about 73.2% of total revenues. In Massachusetts, a Town is allowed to assess taxes at an amount that is 2 ½% greater than the prior year plus new growth as well as assessed amounts allowed as part of a debt exclusion or override. The act is more commonly referred to as proposition 2 ½. Thus, the Town experienced an increase in property taxes that was expected. Capital grants and contributions of \$1.4 million were about \$4.1 million lower than the prior year; this significant reduction reflects the winding down of State subsidized projects. The Town continues to aggressively pursue these earmarks however there are no guarantees how successful these attempts will be.

No other revenue categories were material in amount or fluctuated significantly from year to year.

Expenses

Major expenses during fiscal 2018 were for education and public safety which comprised 47.4% and 26.8%, respectively, of total expenses.

The Town is one of the three-member communities of the Triton Regional School District. The District assesses the Town a portion of the total cost of providing education services to its students. This is typically assessed as a ratio based on school enrollment. Overall education costs continue to rise, especially benefits. The Town's portion of the assessment increased approximately \$0.5 million in the current year.

Public Safety expenses were consistent with the amount recorded in the prior year and continue to be an area that the Town devotes significant resources to.

No other expense categories were material in amount or fluctuated significantly from year to year.

Business-type Activities. The primary revenue sources for both water and sewer activities are comprised of usage fees for metered services and system connections which represented approximately 95.0% of total revenues.

Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 62.3% pertains to direct operational costs with the remaining costs represented by debt service (approximately 8.5%) and current year depreciation (approximately 29.1%).

Expenses decreased approximately \$0.7 million. This was primarily related to three factors (1) reduced pension expenses of approximately \$0.2 million due to a new valuation, (2) reduced interest costs of over \$0.2 million, and (3) about \$0.3 million paid through the capital accounts in the prior year that were classified as repairs and maintenance.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the

Town's financing requirements. The Town presents a General Fund, Welcome Center Fund, Police Construction Fund and combined Nonmajor Funds.

General Fund

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was over \$2.4 million, while total fund balance totaled approximately \$3.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 9.7% of total General Fund expenditures, while total fund balance represents approximately 12.0% of that same amount.

The current year total fund balance decreased by about \$0.1 million. Favorable budget performance of just under \$1.0 million was offset by appropriations of free cash of almost \$1.2 million to make up the most significant part of this net decrease.

Welcome Center Fund

The Welcome Center Fund was created to account for the construction of the Welcome Center near the Town boardwalk at Salisbury Beach.

The current year fund balance of about \$0.7 million represents a decrease of \$0.1 million from the prior year due to expenditures of about that amount.

Police Station Construction

The costs of construction to the new Police Station have been recorded in this major fund. The Police Station is complete and a minor residual balance of about \$23,000 exists at year-end. This represents an increase of over \$0.8 million as the fund was in a deficit position in the prior year due to construction costs financed through short-term borrowings. This increase was the result of the Town recording over \$1.1 million in premiums earned from a debt offering that refinanced this short-term debt, offset by about \$300,000 in final facility costs.

Combined Nonmajor Funds

The nature of Nonmajor Funds is the accumulation of resources through intergovernmental grants, user charges or contributions. These resources are typically restricted for specific purposes and over time are exhausted by their intended use to zero. Any residual balances at any one particular point in time or during the course of the year is merely the result of timing of revenues and expenditures; therefore, annual surpluses or deficits are not overly meaningful.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the Water Fund was nearly \$6.0 million; and net position of the Sewer Fund amounted to over \$26.1 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were minor (less than 4%). The schedule of budgetary information is provided as *Required Supplementary Information*.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to approximately \$76.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, machinery and equipment and reflects a net increase of approximately \$0.2 million, as a result of over \$2.7 million of capital asset additions offset by over \$2.5 million of depreciation.

The Town has undergone significant capital improvements over the past several years. These include major improvements and additions to its town hall, library, police station, roads, and recreational facilities; along with the expansion of its wastewater treatment system and a water tank replacement. A significant portion of these improvements were funded with reimbursements from grants provided by the Federal government and the Commonwealth of Massachusetts. Additional information on the Town capital assets can be found in Note II. C, of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$26.6 million. Of this amount approximately \$14.9 million represents general obligation bonds of governmental activities and approximately \$11.7 million represents general obligation bonds of business-type activities.

The Town's total long-term debt decreased by over \$1.3 million during the fiscal year as a result of regular scheduled pay downs.

The last bond rating received by the Town was an "AA" as set by S&P for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is over \$91.3 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

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

Economic Factors and Next Year's Budgets and Rates

- Consistent with both state and national work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. This trend is continuing to improve in fiscal 2019. Unemployment rates are now trending at or near their pre-recession levels.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2019 is expected to be approximately 82.9% of the entire property tax levy. The Town relies to a certain extent on its commercial, industrial and personal property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.

- Local housing prices have been stabilizing in recent years and in some situations are beginning to see an upward trend. The Town expects housing prices to continue to remain stable in 2019, however recent increases to borrowing rates could stagnate growth to a certain extent.
- The Town set its tax rate for fiscal year 2019 on December 17, 2018.

The above items were considered when the Town developed its budget for fiscal year 2019 which was approved at Annual Town Meeting in the spring of 2018.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,196,606	\$ 11,486,421	\$ 15,683,027
Investments	1,004,546	-	1,004,546
Receivables (net):			
Property taxes	840,719	-	840,719
Excise taxes	139,764	-	139,764
User fees	-	1,114,487	1,114,487
Departmental and other	114,971	-	114,971
Betterments	-	2,045,721	2,045,721
Intergovernmental	697,044	12,396	709,440
Tax foreclosures	922,687	-	922,687
Capital assets, not being depreciated	4,533,852	5,225,657	9,759,509
Capital assets, net of accumulated depreciation	34,113,958	32,773,672	66,887,630
Total Assets	46,564,147	52,658,354	99,222,501
Deferred Outflows of Resources			
Related to net other postemployment benefits liability	412,931	43,699	456,630
Related to net pension liability	1,546,456	208,278	1,754,734
Total Deferred Outflows of Resources	1,959,387	251,977	2,211,364
Liabilities			
Warrants and accounts payable	543,560	158,430	701,990
Accrued payroll and withholdings	336,943	11,974	348,917
Accrued interest expense	-	244,481	244,481
Other liabilities	97,168	-	97,168
Bond anticipation notes	153,000	5,385,000	5,538,000
Noncurrent liabilities:			
Due within one year	1,410,001	1,034,314	2,444,315
Due in more than one year	34,467,784	13,522,315	47,990,099
Total Liabilities	37,008,456	20,356,514	57,364,970
Deferred Inflows of Resources			
Related to net other postemployment benefits liability	3,073,977	325,312	3,399,289
Related to net pension liability	991,646	133,555	1,125,201
Total Deferred Inflows of Resources	4,065,623	458,867	4,524,490
Net Position			
Net investment in capital assets	23,326,810	22,789,663	46,116,473
Restricted:			
Nonexpendable permanent funds	51,000	-	51,000
Expendable permanent funds	206,513	-	206,513
Federal and State grants	835,531	-	835,531
Other purposes	891,524	2,825,304	3,716,828
Unrestricted	(17,861,923)	6,479,983	(11,381,940)
Total Net Position	\$ 7,449,455	\$ 32,094,950	\$ 39,544,405

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,717,968	\$ 669,140	\$ 43,183	\$ 162,506	\$ (1,843,139)		\$ (1,843,139)
Public safety	7,118,866	1,017,316	154,461	-	(5,947,089)		(5,947,089)
Education	12,587,813	-	33,688	-	(12,554,125)		(12,554,125)
Public works	1,205,321	-	24,122	933,937	(247,262)		(247,262)
Health and human services	698,796	78,558	311,366	-	(308,872)		(308,872)
Culture and recreation	1,132,684	13,239	15,294	340,432	(763,719)		(763,719)
Community development	496,134	161,446	621,095	-	286,407		286,407
Interest expense	580,423	-	-	-	(580,423)		(580,423)
Total governmental activities	26,538,005	1,939,699	1,203,209	1,436,875	(21,958,222)		(21,958,222)
Business-type activities:							
Water	2,135,844	2,685,207	-	-		\$ 549,363	549,363
Sewer	2,391,175	2,270,907	-	122,583		2,315	2,315
Total business-type activities	4,527,019	4,956,114	-	122,583		551,678	551,678
Total Primary Government	\$ 31,065,024	\$ 6,895,813	\$ 1,203,209	\$ 1,559,458	(21,958,222)	551,678	(21,406,544)
<u>General Revenues:</u>							
Property taxes					20,381,163	-	20,381,163
Grants and contributions not restricted to specific programs					899,946	-	899,946
Motor vehicle and other excise					1,843,383	-	1,843,383
Penalties and interest on taxes					109,361	-	109,361
Unrestricted investment income					32,616	32,723	65,339
Other income					-	105,122	105,122
<u>Transfers (net)</u>					60,000	(60,000)	-
Total general revenues					23,326,469	77,845	23,404,314
Change in Net Position					1,368,247	629,523	1,997,770
<u>Net Position:</u>							
Beginning of year, as restated					6,081,208	31,465,427	37,546,635
End of year					\$ 7,449,455	\$ 32,094,950	\$ 39,544,405

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Welcome Center	Police Station Construction	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,491,920	\$ 727,690	\$ 22,567	\$ 954,429	\$ 4,196,606
Investments	762,224	-	-	242,322	1,004,546
Receivables:					
Property taxes	840,719	-	-	-	840,719
Excise taxes	139,764	-	-	-	139,764
Departmental and other	14,971	-	-	100,000	114,971
Intergovernmental	120,912	-	-	576,132	697,044
Tax foreclosures	922,687	-	-	-	922,687
Total Assets	<u>5,293,197</u>	<u>727,690</u>	<u>22,567</u>	<u>1,872,883</u>	<u>7,916,337</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,293,197</u>	<u>\$ 727,690</u>	<u>\$ 22,567</u>	<u>\$ 1,872,883</u>	<u>\$ 7,916,337</u>
Liabilities					
Warrants and accounts payable	\$ 86,436	\$ 11,266	\$ -	\$ 445,858	\$ 543,560
Accrued payroll	322,385	-	-	14,558	336,943
Bond anticipation notes	-	-	-	153,000	153,000
Other liabilities	26,079	-	-	71,089	97,168
Total Liabilities	<u>434,900</u>	<u>11,266</u>	<u>-</u>	<u>684,505</u>	<u>1,130,671</u>
Deferred Inflows of Resources					
Unavailable revenue - property taxes	766,554	-	-	-	766,554
Unavailable revenue - excise taxes	139,764	-	-	-	139,764
Unavailable revenue - other	974,366	-	-	100,000	1,074,366
Total Deferred Inflows of Resources	<u>1,880,684</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>1,980,684</u>
Fund Balances					
Nonspendable	-	-	-	51,000	51,000
Restricted	-	716,424	22,567	1,110,565	1,849,556
Committed	526,498	-	-	84,012	610,510
Assigned	40,818	-	-	-	40,818
Unassigned	2,410,297	-	-	(157,199)	2,253,098
Total Fund Balances	<u>2,977,613</u>	<u>716,424</u>	<u>22,567</u>	<u>1,088,378</u>	<u>4,804,982</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,293,197</u>	<u>\$ 727,690</u>	<u>\$ 22,567</u>	<u>\$ 1,872,883</u>	<u>\$ 7,916,337</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Governmental Fund Balances	\$ 4,804,982
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	38,647,810
Other long-term assets are not available to pay for current period expenditures and, therefore are reported as unavailable revenue in the funds.	1,980,684
Deferred outflows and (inflows) of resources to be recognized in future pension and benefits expense are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to net other postemployment benefits liability	412,931
Deferred outflows related to net pension liability	1,546,456
Deferred inflows related to net other postemployment benefits liability	(3,073,977)
Deferred inflows related to net pension liability	(991,646)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the government funds:	
Bonds and notes payable	(14,870,699)
Unamortized bond premium	(1,351,987)
Capital lease obligations	(513,500)
Post-closing landfill monitoring costs	(204,500)
Compensated absences	(873,326)
Net other postemployment benefits liability	(5,567,090)
Net pension liability	(12,496,683)
Net Position of Governmental Activities	<u><u>\$ 7,449,455</u></u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	General Fund	Welcome Center	Police Station Construction	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 20,306,869	\$ -	\$ -	\$ -	\$ 20,306,869
Intergovernmental	1,233,102	-	-	1,888,140	3,121,242
Excise taxes	1,843,034	-	-	-	1,843,034
Licenses and permits	540,762	-	-	-	540,762
Departmental and other revenue	628,964	-	-	606,752	1,235,716
Penalties and interest on taxes	109,361	-	-	-	109,361
Fines and forfeitures	163,221	-	-	-	163,221
Investment income	32,534	-	-	82	32,616
Contributions and donations	-	-	-	543,017	543,017
Total Revenues	<u>24,857,847</u>	<u>-</u>	<u>-</u>	<u>3,037,991</u>	<u>27,895,838</u>
Expenditures:					
Current:					
General government	1,672,081	-	-	481,618	2,153,699
Public safety	4,800,816	-	311,783	403,718	5,516,317
Education	12,584,270	-	-	-	12,584,270
Public works	1,291,539	98,644	-	1,007,631	2,397,814
Health and human services	489,952	-	-	96,387	586,339
Culture and recreation	462,028	-	-	373,772	835,800
Fringe and pension benefits	2,379,525	-	-	-	2,379,525
State and county tax assessments	138,337	-	-	-	138,337
Debt service:					
Principal	317,175	-	-	100,000	417,175
Interest	670,211	-	-	452,671	1,122,882
Total Expenditures	<u>24,805,934</u>	<u>98,644</u>	<u>311,783</u>	<u>2,915,797</u>	<u>28,132,158</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>51,913</u>	<u>(98,644)</u>	<u>(311,783)</u>	<u>122,194</u>	<u>(236,320)</u>
Other Financing Sources (Uses):					
Transfers in	67,567	-	-	317,321	384,888
Transfers out	(231,980)	-	-	(92,908)	(324,888)
Premium from issuance of long-term debt	-	-	1,132,260	58,116	1,190,376
Total Other Financing Sources (Uses)	<u>(164,413)</u>	<u>-</u>	<u>1,132,260</u>	<u>282,529</u>	<u>1,250,376</u>
Net Change in Fund Balances	(112,500)	(98,644)	820,477	404,723	1,014,056
Fund Balances - Beginning, as restated	<u>3,090,113</u>	<u>815,068</u>	<u>(797,910)</u>	<u>683,655</u>	<u>3,790,926</u>
Fund Balances - Ending	<u>\$ 2,977,613</u>	<u>\$ 716,424</u>	<u>\$ 22,567</u>	<u>\$ 1,088,378</u>	<u>\$ 4,804,982</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 1,014,056**

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. The net amounts are reflected here as reconciling items:

Capital outlays	\$ 2,248,294	
Depreciation expense	(1,229,278)	
Net effect of reporting capital assets		1,019,016

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

Repayments of debt principal	417,175	
Premiums from issuance of bonds and notes	(1,190,376)	
Amortization of bond and note premiums	89,788	
Net effect of reporting long-term debt		(683,413)

Revenues in the Statement of Activities that do not provide current financial are reported as unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue of various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue. (49,586)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Post-closing landfill monitoring costs	20,000	
Payments of minimum capital lease principal obligations	92,873	
Other postemployment benefits	194,859	
Pension benefits	(239,558)	
Net effect of reporting long-term liabilities		68,174

Change in Net Position of Governmental Activities **\$ 1,368,247**

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,109,098	\$ 8,377,323	\$ 11,486,421
Receivables, net:			
User charges	438,369	676,118	1,114,487
Betterments	-	13,488	13,488
Intergovernmental	-	12,396	12,396
Total current assets	<u>3,547,467</u>	<u>9,079,325</u>	<u>12,626,792</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	2,032,233	2,032,233
Land	369,002	1,383,999	1,753,001
Construction in progress	2,096,225	1,376,431	3,472,656
Capital assets, net of depreciation	<u>12,583,788</u>	<u>20,189,884</u>	<u>32,773,672</u>
Total noncurrent assets	<u>15,049,015</u>	<u>24,982,547</u>	<u>40,031,562</u>
Total Assets	<u>18,596,482</u>	<u>34,061,872</u>	<u>52,658,354</u>
Deferred Outflows of Resources			
Related to net other postemployment benefits liability	-	43,699	43,699
Related to net pension liability	<u>40,403</u>	<u>167,875</u>	<u>208,278</u>
Total Deferred Outflows of Resources	<u>40,403</u>	<u>211,574</u>	<u>251,977</u>
Liabilities			
Current liabilities:			
Warrants and accounts payable	77,585	80,845	158,430
Accrued payroll	-	11,974	11,974
Accrued interest expense	151,509	92,972	244,481
Bond anticipation notes payable	2,710,000	2,675,000	5,385,000
Bonds and notes payable	640,258	377,700	1,017,958
Compensated absences	-	16,356	16,356
Total current liabilities	<u>3,579,352</u>	<u>3,254,847</u>	<u>6,834,199</u>
Noncurrent liabilities:			
Bonds and notes payable	8,741,034	2,460,000	11,201,034
Compensated absences	-	49,067	49,067
Net other postemployment benefits liability	-	589,152	589,152
Net pension liability	<u>326,489</u>	<u>1,356,573</u>	<u>1,683,062</u>
Total noncurrent liabilities	<u>9,067,523</u>	<u>4,454,792</u>	<u>13,522,315</u>
Total Liabilities	<u>12,646,875</u>	<u>7,709,639</u>	<u>20,356,514</u>
Deferred Inflows of Resources			
Related to net other postemployment benefits liability	-	325,312	325,312
Related to net pension liability	<u>25,908</u>	<u>107,647</u>	<u>133,555</u>
Total Deferred Inflows of Resources	<u>25,908</u>	<u>432,959</u>	<u>458,867</u>
Net Position			
Net investment in capital assets	4,111,440	18,678,223	22,789,663
Restricted for debt service	-	2,825,304	2,825,304
Unrestricted	<u>1,852,662</u>	<u>4,627,321</u>	<u>6,479,983</u>
Total Net Position	<u>\$ 5,964,102</u>	<u>\$ 26,130,848</u>	<u>\$ 32,094,950</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues:			
Charges for services	\$ 2,514,259	\$ 2,200,150	\$ 4,714,409
Access fees	170,948	70,757	241,705
Total Operating Revenues	<u>2,685,207</u>	<u>2,270,907</u>	<u>4,956,114</u>
Operating Expenses:			
Operating costs	1,448,830	1,373,217	2,822,047
Depreciation	460,583	857,939	1,318,522
Total Operating Expenses	<u>1,909,413</u>	<u>2,231,156</u>	<u>4,140,569</u>
Operating Income (Loss)	<u>775,794</u>	<u>39,751</u>	<u>815,545</u>
Nonoperating Revenues (Expenses):			
Other income	66,372	38,750	105,122
Interest income	9,338	23,385	32,723
Interest expense	(226,431)	(160,019)	(386,450)
Total Nonoperating Revenues (Expenses)	<u>(150,721)</u>	<u>(97,884)</u>	<u>(248,605)</u>
Income Before Capital Contributions and Transfers	<u>625,073</u>	<u>(58,133)</u>	<u>566,940</u>
Intergovernmental capital grants	-	2,440	2,440
Transfers in	-	-	-
Betterments	-	120,143	120,143
Transfers out	-	(60,000)	(60,000)
Change in Net Position	<u>625,073</u>	<u>4,450</u>	<u>629,523</u>
Total Net Position - Beginning, as restated	<u>5,339,029</u>	<u>26,126,398</u>	<u>31,465,427</u>
Total Net Position - Ending	<u>\$ 5,964,102</u>	<u>\$ 26,130,848</u>	<u>\$ 32,094,950</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from users	\$ 2,632,370	\$ 2,254,995	\$ 4,887,365
Payments to employees	-	(13,273)	(13,273)
Payments to vendors	(1,435,121)	(1,436,650)	(2,871,771)
Net Cash Provided By Operating Activities	1,197,249	805,072	2,002,321
Cash Flows from Noncapital Related Financing Activities:			
Net transfers	-	(60,000)	(60,000)
Net Cash (Used In) Noncapital Financing Activities	-	(60,000)	(60,000)
Cash Flows from Capital and Related Financing Activities:			
Issuance of bond anticipation notes	2,710,000	2,675,000	5,385,000
Payment of bond anticipation notes	(2,480,000)	(675,000)	(3,155,000)
Premiums from issuance of bonds and notes	(90,347)	-	(90,347)
Receipts from betterments	-	438,323	438,323
Other nonoperating income	66,372	38,750	105,122
Government subsidies	-	14,760	14,760
Acquisition and construction of capital assets	(26,343)	(443,823)	(470,166)
Principal payments on bonds and other long-term notes	(530,361)	(383,400)	(913,761)
Interest expense	(230,765)	(134,386)	(365,151)
Net Cash (Used In) Provided By Capital and Related Financing Activities	(581,444)	1,530,224	948,780
Cash Flows from Investing Activities:			
Interest income	9,338	23,385	32,723
Net Cash Provided By Investing Activities	9,338	23,385	32,723
Net Change in Cash and Cash Equivalents	625,143	2,298,681	2,923,824
Cash and Cash Equivalents:			
Beginning of year	\$ 2,483,955	6,078,642	8,562,597
End of year	\$ 3,109,098	\$ 8,377,323	\$ 11,486,421
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities:			
Operating income	\$ 775,794	\$ 39,751	\$ 815,545
Depreciation expense	460,583	857,939	1,318,522
Changes in assets and deferred outflows and liabilities and deferred inflows:			
Receivables	(52,837)	(15,912)	(68,749)
Deferred outflows of resources	1,400	(37,882)	(36,482)
Deferred inflows of resources	9,883	-	9,883
Accounts payable, accrued expenses and other liabilities	2,426	(38,824)	(36,398)
Net Cash Provided By Operating Activities	\$ 1,197,249	\$ 805,072	\$ 2,002,321

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Affordable Housing Trust	Other Postemployment Benefits Trust	Agency Funds
Assets			
Cash and cash equivalents	\$ 25,148	\$ -	\$ 28,508
Investments	505,261	-	-
Money market mutual funds	-	805	-
Fixed income mutual funds	-	59,335	-
Equity mutual funds	-	99,957	-
Common stock equity	-	50,000	-
Notes receivable	406,089	-	-
	<u>936,498</u>	<u>210,097</u>	<u>28,508</u>
Total Assets	<u>936,498</u>	<u>210,097</u>	<u>28,508</u>
Liabilities			
Warrants and accounts payable	-	-	1,430
Planning and performance bonds	-	-	27,078
	<u>-</u>	<u>-</u>	<u>28,508</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>28,508</u>
Net Position			
Held in trust for affordable housing purposes	936,498	-	-
Restricted for other postemployment benefits	-	210,097	-
	<u>-</u>	<u>210,097</u>	<u>-</u>
Total Net Position	<u><u>\$ 936,498</u></u>	<u><u>\$ 210,097</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

	Affordable Housing Trust	Other Postemployment Benefits Trust
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employer	\$ -	\$ 356,113
Other	121,913	-
	<u> </u>	<u> </u>
Total contributions	121,913	356,113
	<u> </u>	<u> </u>
Investment income:		
Interest, dividends, realized gains/losses	4,031	630
Unrealized gains and losses	(1,259)	(2,557)
	<u> </u>	<u> </u>
Net investment earnings	2,772	(1,927)
	<u> </u>	<u> </u>
Total Additions	124,685	354,186
	<u> </u>	<u> </u>
Deductions:		
Benefit payments	-	306,113
Public housing assistance	15,139	-
	<u> </u>	<u> </u>
Total Deductions	15,139	306,113
	<u> </u>	<u> </u>
Change in Net Position	109,546	48,073
	<u> </u>	<u> </u>
Net Position - Beginning	826,952	162,024
	<u> </u>	<u> </u>
Net Position - Ending	<u><u>\$ 936,498</u></u>	<u><u>\$ 210,097</u></u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated in 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12 through a regional school district, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned facilities.

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

The Town is a member community of the Triton Regional School District that provides educational services to three area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2018, the Town's share of the operating and debt service expenses was \$11,788,702. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 112 Elm Street, Byfield, MA 01922.

B. Government-Wide and Fund Financial Statements

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

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

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

- 1) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows, liabilities and deferred inflows, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) 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 five percent 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. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The government reports the following major governmental funds:

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

Welcome Center Fund – Accounts for all the activity associated with the Welcome Center project.

Police Station Construction Fund – Accounts for all the activity associated with the construction of the Town's Police Station.

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

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

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

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

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

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

The government reports the following major proprietary funds:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Sewer Enterprise Fund – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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

Affordable Housing Trust Fund – is used to account for funds held in trust for affordable housing purposes.

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations.

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

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

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and sewer user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectibles for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectibles comprised of those outstanding amounts greater than five years old.

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	40 years
Machinery and equipment	5-7 years
Vehicles	5-10 years
Infrastructure	25-50 years

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

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

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

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

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of financial resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that are reported on the government-wide statement of net position which relate to inflows from changes in the net pension liability and the net other postemployment benefit liability. The deferred pensions and OPEB items will be recognized in pension and benefits expense in future years as more fully described in Note III Subsections A and C. The Town also reports one type of item that arises under a modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: (1) property taxes, (2) excise taxes, and (3) other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

Nonexpendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Federal and State grants represent position that have restrictions placed on them from federal and state granting agencies.

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

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

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

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

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

Committed represents amounts that can only be used for specific purposes pursuant to formal action of the Town Meeting through Town Meeting Votes, which represent the most binding constraint that give rise to committed fund balance. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

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

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$762,224 at June 30, 2018 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Finance Director as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$526,498 of encumbrances from Town Meeting votes in the general fund as committed. The Town also reports \$40,818 of encumbrances approved by the Finance Director from normal purchasing activity as assigned. There are no encumbrances reported in the other funds.

The following represent the categorizations of fund balance:

	General	Welcome Center Fund	Police Station Construction Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 51,000	\$ 51,000
Restricted:					
General government	-	-	-	302,070	302,070
Public safety	-	-	22,567	328,322	350,889
Public works	-	-	-	197,559	197,559
Health and human services	-	-	-	65,647	65,647
Culture and recreation	-	716,424	-	216,967	933,391
Committed:					
General government	244,508	-	-	-	244,508
Public safety	100,998	-	-	-	100,998
Public works	148,992	-	-	-	148,992
Health and human services	7,000	-	-	-	7,000
Pension and fringe benefits	-	-	-	84,012	84,012
Subsequent year expenditures	25,000	-	-	-	25,000
Assigned:					
General government	26,508	-	-	-	26,508
Public safety	12,810	-	-	-	12,810
Pension and fringe benefits	1,500	-	-	-	1,500
Unassigned	2,410,297	-	-	(157,199)	2,253,098
Totals	<u>\$ 2,977,613</u>	<u>\$ 716,424</u>	<u>\$ 22,567</u>	<u>\$ 1,088,378</u>	<u>\$ 4,804,982</u>

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits in its Nonmajor Governmental funds in the aggregate amount of \$157,199. These deficits will be funded through future long-term borrowings and grant reimbursements.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$15,736,683 and the bank balance was \$16,035,358. Of the Town's bank balance, \$11,678,689 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does maintain an investment policy for custodial credit risk relative to investment holdings. All securities not held directly the Town will be held in the Town's name and tax identification number by a third-party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The Town's investments in negotiable certificates of deposit are fully covered by federal depository insurance.

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

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

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

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2018:

		Fair Value Measurements Using		
	Totals	Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 883,644	\$ 616,308	\$ 267,336	\$ -
Corporate bonds	304,867	-	304,867	-
Fixed income mutual funds	59,335	-	59,335	-
Negotiable certificates of deposit	211,499	-	211,499	-
Total debt securities	1,459,345	616,308	843,037	-
Equity securities:				
Common stock	82,678	82,678	-	-
Equity mutual funds	99,957	-	99,957	-
Total equity securities	182,635	82,678	99,957	-
Total investments by fair value level	1,641,980	<u>\$ 698,986</u>	<u>\$ 942,994</u>	<u>\$ -</u>
<u>Investments measured at amortized cost</u>				
Money market mutual funds	77,923			
Total investments measured at fair value	\$ 1,719,903			

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

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town did not maintain balances in any single investment that would represent more than 5% of the Town’s total investments.

Credit Risk – The Town has not adopted a formal policy related to credit risk. During the fiscal year, the Town limited its investments to money market accounts and bank deposits.

At June 30, 2018 the Town had the following investments and maturities:

Investments	Fair Value Total	Time Until Maturity			
		< 1 Year	1 - 5 Years	6 - 10 Years	> 10 Years
Corp. Fixed Income Securities	\$ 304,867	\$ -	\$ 304,867	\$ -	\$ -
Government Obligations	883,644	579,587	304,057	-	-
Fixed Income Mutual Funds	59,335	7,276	22,376	29,683	-
Certificates of Deposit	211,499	-	211,499	-	-
Total investments with maturities	1,459,345	\$ 586,863	\$ 842,799	\$ 29,683	\$ -
Other Investments:					
Equities	82,678				
Equity Mutual Funds	99,957				
Money Market Mutual Funds	77,923				
Total investment without maturities	260,558				
Total Investments	<u>\$ 1,719,903</u>				

At June 30, 2018 the credit quality ratings of investments were as follows:

Investments	Bond Ratings (Moody's)						Not Rated
	Aaa	Aa3	A1	A3	Baa1	Baa2	
Corp. Fixed Income Securities	\$ -	\$ 74,240	\$ 43,873	\$ 44,298	\$ 24,648	\$ 117,809	\$ -
Government Obligations	883,644	-	-	-	-	-	-
Fixed Income Mutual Funds	-	-	-	-	-	-	59,335
Certificates of Deposit	-	-	-	-	-	-	211,499
Total Investments	<u>\$ 883,644</u>	<u>\$ 74,240</u>	<u>\$ 43,873</u>	<u>\$ 44,298</u>	<u>\$ 24,648</u>	<u>\$ 117,809</u>	<u>\$ 270,834</u>

B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables and other asset type:			
Real estate and personal property taxes	\$ 369,778	\$ (172,380)	\$ 197,398
Tax deferrals	42,205	-	42,205
Tax liens	601,116	-	601,116
Excise taxes	355,410	(215,646)	139,764
Department and other	114,971	-	114,971
Intergovernmental	697,044	-	697,044
Tax foreclosures	922,687	-	922,687
Total	<u>\$ 3,103,211</u>	<u>\$ (388,026)</u>	<u>\$ 2,715,185</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 432,324	\$ -	\$ 432,324
Water liens	6,045	-	6,045
Sewer user fees	672,997	-	672,997
Sewer liens	3,121	-	3,121
Sewer betterments - apportioned	13,488	-	13,488
Sewer betterments - unapportioned	2,032,233	-	2,032,233
Intergovernmental	12,396	-	12,396
Total	<u>\$ 3,172,604</u>	<u>\$ -</u>	<u>\$ 3,172,604</u>

Unapportioned sewer betterments are amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Nonmajor Governmental Funds	Total
Receivables and other asset type:			
Real estate and personal property taxes	\$ 123,233	\$ -	\$ 123,233
Tax deferrals	42,205	-	42,205
Tax liens	601,116	-	601,116
Excise taxes	139,764	-	139,764
Department and other	-	100,000	100,000
Intergovernmental	51,679	-	51,679
Tax foreclosures	922,687	-	922,687
Total	<u>\$ 1,880,684</u>	<u>\$ 100,000</u>	<u>\$ 1,980,684</u>

MCWT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Clean Water Trust (MCWT). It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$64,075 and interest in the amount of \$9,128 until the maturity of these agreements. In this situation, GAAP requires the recognition of gross debt; therefore, the principal amounts of \$51,679 and \$12,396 are reported within the General Fund and Sewer Enterprise Funds, respectively.

C. Capital Assets

Capital asset activity of the Town for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 4,052,534	\$ -	\$ -	\$ 4,052,534
Construction in process	601,263	451,337	(571,282)	481,318
Total capital assets not being depreciated	4,653,797	451,337	(571,282)	4,533,852
Capital assets being depreciated:				
Buildings and improvements	22,886,840	236,094	-	23,122,934
Infrastructure	15,856,310	1,820,619	-	17,676,929
Machinery and equipment	1,925,842	166,994	-	2,092,836
Vehicles	3,240,821	144,532	-	3,385,353
Total capital assets being depreciated	43,909,813	2,368,239	-	46,278,052
Less accumulated depreciation for:				
Buildings and improvements	(2,281,197)	(578,749)	-	(2,859,946)
Infrastructure	(5,026,051)	(316,268)	-	(5,342,319)
Machinery and equipment	(1,314,983)	(160,598)	-	(1,475,581)
Vehicles	(2,312,585)	(173,663)	-	(2,486,248)
Total accumulated depreciation	(10,934,816)	(1,229,278)	-	(12,164,094)
Total capital assets being depreciated, net	32,974,997	1,138,961	-	34,113,958
Governmental activities capital assets, net	\$ 37,628,794	\$ 1,590,298	\$ (571,282)	\$ 38,647,810
<u><i>Business Activities - All:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Construction in process	3,049,034	423,622	-	3,472,656
Total capital assets not being depreciated	4,802,035	423,622	-	5,225,657
Capital assets being depreciated:				
Buildings and improvements	39,100	-	-	39,100
Infrastructure	58,516,593	46,544	-	58,563,137
Machinery and equipment	1,058,699	-	-	1,058,699
Vehicles	242,082	-	-	242,082
Total capital assets being depreciated	59,856,474	46,544	-	59,903,018
Less accumulated depreciation for:				
Buildings and improvements	(4,427)	(1,263)	-	(5,690)
Infrastructure	(25,052,465)	(1,240,059)	-	(26,292,524)
Machinery and equipment	(545,545)	(63,722)	-	(609,267)
Vehicles	(208,387)	(13,478)	-	(221,865)
Total accumulated depreciation	(25,810,824)	(1,318,522)	-	(27,129,346)
Total capital assets being depreciated, net	34,045,650	(1,271,978)	-	32,773,672
Business activities capital assets, net	\$ 38,847,685	\$ (848,356)	\$ -	\$ 37,999,329

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Construction in process	2,096,225	-	-	2,096,225
Total capital assets not being depreciated	2,465,227	-	-	2,465,227
Capital assets being depreciated:				
Infrastructure	17,878,060	26,343	-	17,904,403
Machinery and equipment	613,748	-	-	613,748
Total capital assets being depreciated	18,491,808	26,343	-	18,518,151
Less accumulated depreciation for:				
Infrastructure	(5,058,730)	(425,715)	-	(5,484,445)
Machinery and equipment	(415,050)	(34,868)	-	(449,918)
Total accumulated depreciation	(5,473,780)	(460,583)	-	(5,934,363)
Total Water capital assets being depreciated, net	13,018,028	(434,240)	-	12,583,788
<u>Business-type Activities: Sewer</u>				
Capital assets not being depreciated:				
Land	1,383,999	-	-	1,383,999
Construction in process	952,809	423,622	-	1,376,431
Total capital assets not being depreciated	2,336,808	423,622	-	2,760,430
Capital assets being depreciated:				
Buildings	39,100	-	-	39,100
Infrastructure	40,638,533	20,201	-	40,658,734
Machinery and equipment	444,951	-	-	444,951
Vehicles	242,082	-	-	242,082
Total capital assets being depreciated	41,364,666	20,201	-	41,384,867
Less accumulated depreciation for:				
Buildings	(4,427)	(1,263)	-	(5,690)
Infrastructure	(19,993,735)	(814,344)	-	(20,808,079)
Machinery and equipment	(130,495)	(28,854)	-	(159,349)
Vehicles	(208,387)	(13,478)	-	(221,865)
Total accumulated depreciation	(20,337,044)	(857,939)	-	(21,194,983)
Total Sewer capital assets being depreciated, net	21,027,622	(837,738)	-	20,189,884
Total Business-type activities - capital assets, net	\$ 38,847,685	\$ (848,356)	\$ -	\$ 37,999,329
Depreciation expense was charged to functions/programs as follows:				
<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>		
General government	\$ 93,177	Water	\$ 460,583	
Public safety	502,175	Sewer	857,939	
Public works	393,493	Total Business-Type Activities	\$ 1,318,522	
Culture and recreation	240,433			
Total Governmental Activities	\$ 1,229,278			

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2018, are summarized as follows:

Transfers Out	Transfers In		
	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 231,980	\$ 231,980 (1)
Nonmajor Governmental Funds	67,567	25,341	92,908 (2)
Sewer Enterprise Fund	-	60,000	60,000 (3)
Total	<u>\$ 67,567</u>	<u>\$ 317,321</u>	<u>\$ 384,888</u>

(1) Transfer to nonmajor funds to supplement capital projects and other activities.

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

(3) Transfers to nonmajor funds to fund compensated absence reserve.

E. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2018, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2017	Additions	Retirements	June 30, 2018
BAN	2.00%	09/15/17	\$ 2,529,200	\$ -	\$ (2,529,200)	\$ -
GAN	1.30%	09/15/17	100,000	-	(100,000)	-
BAN	2.00%	09/14/18	-	68,000	-	68,000
BAN	1.90%	09/14/18	-	85,000	-	85,000
Total Governmental Notes			<u>2,629,200</u>	<u>153,000</u>	<u>(2,629,200)</u>	<u>153,000</u>
BAN	2.00%	09/15/17	2,480,000	-	(2,480,000)	-
BAN	2.00%	09/14/18	-	2,710,000	-	2,710,000
Total Business-Type Notes - Water			<u>2,480,000</u>	<u>2,710,000</u>	<u>(2,480,000)</u>	<u>2,710,000</u>
BAN	2.00%	09/15/17	675,000	-	(675,000)	-
BAN	2.00%	09/14/18	-	2,675,000	-	2,675,000
Total Business-Type Notes - Sewer			<u>675,000</u>	<u>2,675,000</u>	<u>(675,000)</u>	<u>2,675,000</u>
Total Business-Type Notes - All			<u>3,155,000</u>	<u>5,385,000</u>	<u>(3,155,000)</u>	<u>5,385,000</u>
Total Notes Payable			<u>\$ 5,784,200</u>	<u>\$ 5,538,000</u>	<u>\$ (5,784,200)</u>	<u>\$ 5,538,000</u>

Temporary notes outstanding at year end were issued for park land improvements (\$153,000), water well project (\$2,710,000), wastewater treatment facility (\$2,000,000), and Lafayette road sewer planning (\$675,000).

F. Long-Term Obligations

The following reflects the activity in the long-term liabilities for the year ended June 30, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 15,287,874	\$ -	\$ (417,175)	\$ 14,870,699	\$ 942,850
Unamortized bond premium	251,399	1,190,376	(89,788)	1,351,987	147,670
Capital lease obligations	606,373	-	(92,873)	513,500	81,150
Post-closure landfill monitoring	224,500	-	(20,000)	204,500	20,000
Compensated absences	873,326	218,332	(218,332)	873,326	218,332
Other postemployment benefits	8,422,995	540,105	(3,396,010)	5,567,090	-
Net pension liability	12,688,991	2,546,055	(2,738,363)	12,496,683	-
Total Governmental Activities	\$ 38,355,458	\$ 4,494,868	\$ (6,972,541)	\$ 35,877,785	\$ 1,410,002
Business-type Activities: Water					
Bond and note indebtedness	\$ 9,394,502	\$ -	\$ (530,361)	\$ 8,864,141	\$ 556,578
Unamortized bond premium	607,498	-	(90,347)	517,151	83,680
Net pension liability	331,513	75,986	(81,010)	326,489	-
Total Business-type Activities: Water	10,333,513	75,986	(701,718)	9,707,781	640,258
Business-type Activities: Sewer					
Bond and note indebtedness	3,221,100	-	(383,400)	2,837,700	377,700
Compensated absences	65,423	16,536	(16,536)	65,423	16,356
Other postemployment benefits	891,386	57,158	(359,392)	589,152	-
Net pension liability	1,377,449	315,723	(336,599)	1,356,573	-
Total Business-type Activities: Sewer	5,555,358	389,417	(1,095,927)	4,848,848	394,056
Total Business-type Activities: All	\$ 15,888,871	\$ 465,403	\$ (1,797,645)	\$ 14,556,629	\$ 1,034,314

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the respective business-type funds.

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

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

The current debt limitation for the Town is over \$91.3 million, which is significantly in excess of the Town’s outstanding general obligation debt.

Below is a summary of outstanding long-term debt obligations for the year ended June 30, 2018:

Description of Issue	Maturing Fiscal Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>						
General Obligation Bonds	Varies	Varies	\$ 14,812,000	\$ -	\$ (217,000)	\$ 14,595,000
MCWT Note	2020	Varies	259,365	-	(83,666)	175,699
Promissory Notes	2019	Varies	216,509	-	(116,509)	100,000
Total Governmental Bond and Note Indebtedness			15,287,874	-	(417,175)	14,870,699
<u>Business-type Activities - Water</u>						
General Obligation Refunding Bond	2031	3.5 - 5.0%	7,631,000	-	(421,000)	7,210,000
MCWT Note	2031	2.0%	1,670,838	-	(104,456)	1,566,382
MCWT Note	2033	2.0%	92,664	-	(4,905)	87,759
Total Water Bond and Note Indebtedness			9,394,502	-	(530,361)	8,864,141
<u>Business-type Activities - Sewer</u>						
General Obligation Bond	2031	3.0 - 4.0%	2,740,000	-	(200,000)	2,540,000
General Obligation Refunding Bonds	2020	3.5 - 4.0%	387,000	-	(137,000)	250,000
MCWT Note	2019	Varies	94,100	-	(46,400)	47,700
Total Sewer Bond and Note Indebtedness			3,221,100	-	(383,400)	2,837,700
Total Business-type Bond and Note Indebtedness			12,615,602	-	(913,761)	11,701,841
Total Long-Term Bond and Note Indebtedness - All			\$ 27,903,476	\$ -	\$ (1,330,936)	\$ 26,572,540

Payments on general long-term debt obligations due in future years consist of the following:

<i>Governmental Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 942,850	\$ (25,365)	\$ 917,485	\$ 534,281	\$ (5,519)	\$ 528,762	\$ 1,446,247
2020	832,849	(26,314)	806,535	497,601	(2,416)	495,185	1,301,720
2021	750,000	-	750,000	460,210	-	460,210	1,210,210
2022	755,000	-	755,000	425,060	-	425,060	1,180,060
2023	760,000	-	760,000	389,735	-	389,735	1,149,735
2024-2028	3,890,000	-	3,890,000	1,486,200	-	1,486,200	5,376,200
2029-2033	3,700,000	-	3,700,000	752,932	-	752,932	4,452,932
2034-2038	3,240,000	-	3,240,000	217,311	-	217,311	3,457,311
Total	<u>\$ 14,870,699</u>	<u>\$ (51,679)</u>	<u>\$ 14,819,020</u>	<u>\$ 4,763,330</u>	<u>\$ (7,935)</u>	<u>\$ 4,755,395</u>	<u>\$ 19,574,415</u>

<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 556,578	\$ -	\$ 556,578	\$ 249,418	\$ -	\$ 249,418	\$ 805,996
2020	583,840	-	583,840	228,863	-	228,863	812,703
2021	596,148	-	596,148	207,564	-	207,564	803,712
2022	623,502	-	623,502	185,519	-	185,519	809,021
2023	640,905	-	640,905	162,629	-	162,629	803,534
2024-2028	3,532,291	-	3,532,291	465,160	-	465,160	3,997,451
2029-2033	2,330,877	-	2,330,877	71,536	-	71,536	2,402,413
Total	<u>\$ 8,864,141</u>	<u>\$ -</u>	<u>\$ 8,864,141</u>	<u>\$ 1,570,689</u>	<u>\$ -</u>	<u>\$ 1,570,689</u>	<u>\$ 10,434,830</u>

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 377,700	\$ (12,396)	\$ 365,304	\$ 106,193	\$ (1,193)	\$ 105,000	\$ 470,304
2020	320,000	-	320,000	92,000	-	92,000	412,000
2021	200,000	-	200,000	81,600	-	81,600	281,600
2022	200,000	-	200,000	73,600	-	73,600	273,600
2023	200,000	-	200,000	65,600	-	65,600	265,600
2024-2028	970,000	-	970,000	210,000	-	210,000	1,180,000
2029-2033	570,000	-	570,000	34,200	-	34,200	604,200
Total	<u>\$ 2,837,700</u>	<u>\$ (12,396)</u>	<u>\$ 2,825,304</u>	<u>\$ 663,193</u>	<u>\$ (1,193)</u>	<u>\$ 662,000</u>	<u>\$ 3,487,304</u>

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 934,278	\$ (12,396)	\$ 921,882	\$ 355,611	\$ (1,193)	\$ 354,418	\$ 1,276,300
2020	903,840	-	903,840	320,863	-	320,863	1,224,703
2021	796,148	-	796,148	289,164	-	289,164	1,085,312
2022	823,502	-	823,502	259,119	-	259,119	1,082,621
2023	840,905	-	840,905	228,229	-	228,229	1,069,134
2024-2028	4,502,291	-	4,502,291	675,160	-	675,160	5,177,451
2029-2033	2,900,877	-	2,900,877	105,736	-	105,736	3,006,613
2034-2038	-	-	-	-	-	-	-
Total	<u>\$ 11,701,841</u>	<u>\$ (12,396)</u>	<u>\$ 11,689,445</u>	<u>\$ 2,233,882</u>	<u>\$ (1,193)</u>	<u>\$ 2,232,689</u>	<u>\$ 13,922,134</u>

MCWT Loan Subsidies – As previously noted in Note I. B., the Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on an annual basis for principal in the amount of \$64,075 until maturity.

Authorized and Unissued Debt – At June 30, 2018, the Town carried authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Town Creek Culvert	\$ 152,292
Energy Conservation	68,585
Police Station Construction	300,000
Water DWS-07-09	62,838
Park Land Improvements	157,000
Partridge Brook Park Phase II	650,000
Rail Trail	40,819
Total authorized and unissued	<u>\$ 1,431,534</u>

Overlapping Debt – The Town's proportionate share of debt of other governmental units which provide services within the Town's boundaries, and the 2018 debt assessment to the Town is approximated below:

<u>Related Entity (unaudited)</u>	<u>Principal Amount</u>	<u>Percent</u>	<u>Assessment Amount (debt portion)</u>
Triton Regional School District	\$7,880,000	30.55%	\$737,775

Capital Leases – The Town has entered into three long-term leases for the purchases of a vehicle and two trucks. These lease agreements qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
<i>Asset:</i>	
Police Interceptor	\$ 42,131
Fire Pumper Truck	498,799
DPW Dump Truck	182,220
Less: accumulated depreciation	(123,218)
Total	<u>\$ 599,932</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2018, are as follows:

Fiscal Year Ended June 30,	Governmental Activities
2019	\$ 96,298
2020	96,298
2021	96,297
2022	57,368
2023	57,368
2024-2028	172,102
Total minimum lease payments	575,731
Less: amounts representing interest	(62,231)
Present value of minimum lease payments	<u>\$ 513,500</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2017 were issued and may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the System as of December 31, 2017, was as follows:

Retirees and beneficiaries currently receiving benefits	1,768
Active plan members	2,738
Inactive plan members	<u>1,030</u>
Total	<u>5,536</u>

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

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

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

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

The Town contributed \$1,265,738 to the System in fiscal year 2018, which was the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 23.0% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$14,179,744 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 3.767% at December 31, 2017, which was consistent with the proportion measured at December 31, 2016.

Pension Expense – The Town recognized \$1,545,403 in pension expense in the statement of activities in fiscal year 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, 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
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 624,306
Differences between expected and actual experience	-	200,670
Changes of assumptions	1,164,199	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	590,534	300,225
Total	<u>\$ 1,754,733</u>	<u>\$ 1,125,201</u>

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

<u>Year ended June 30,</u>	
2019	\$ 231,487
2020	245,285
2021	161,870
2022	(9,110)
Total	<u>\$ 629,532</u>

Actuarial Valuation – The measurement of the System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2018. The significant actuarial assumptions used in the January 1, 2018 actuarial valuation included:

Actuarial cost method:	Entry age normal cost method
Amortization method:	The total appropriation is set to increase annually by 7.41% for five years, then by 6.36% for one year and 4% increases annually thereafter until the 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.
Investment rate of return:	7.5% per year
Projected salary increases:	Select and Ultimate. 7.5% year one, 6.5% year two, 6.0% year three, 5.5% year four, 5.0% year five, 3.75 ultimate rate.
Cost of living adjustments:	3% of the first \$14,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates:	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.
Disabled life mortality:	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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield bonds	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTSS, risk parity	13.00%	3.94%
Private equity	12.00%	10.28%

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

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% decrease Discount Rate 6.50%	Current Discount Rate 7.50%	1% increase Discount Rate 8.50%
Net Pension Liability	\$ 17,839,842	\$ 14,179,744	\$ 11,101,092

B. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

C. Other Postemployment Benefits (OPEB)

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The OPEB Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law Chapter 32B.

Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town’s premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

With respect to OPEB plan reporting, GASB issued GASB Statement No.’s 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting requirements for governments who administer an OPEB plan as defined under the accounting standard are required to present disclosures under both GASB 74 and GASB 75.

GASB 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB 75 address disclosures related to the net OPEB liability required to be recorded by the government in its applicable financial statements. A number of these disclosures are identical, especially if the measurement date under GASB 75 is the same as the plan year-end date. When a different measurement date is used different assumptions and calculations will result.

For the year-ended June 30, 2018 the Town elected to use a measurement date that was the same as the plan year-end date thus the majority of the same disclosures are used and will not be repeated.

GASB Statement No. 75

OPEB Plan disclosures that impact the Town’s net OPEB liability using a measurement date of July 1, 2018 are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2018:

Active employees	85
Inactive employees	<u>73</u>
Total	<u><u>158</u></u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of premiums for both health and life insurance benefits. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2018, the Town’s average contribution rate was approximately 6.3% of covered payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2018 using an actuarial valuation as of July 1, 2018. The components of the net OPEB liability of the Town at June 30, 2018 were as follows:

Total OPEB Liability	\$ 6,366,339
Plan fiduciary net position	<u>(210,097)</u>
Net OPEB liability	<u>\$ 6,156,242</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.30%

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	Full prefunding: 7.5% per year, net of investment expenses
Municipal bond rate	3.45% as of June 30, 2018
Discount Rate	7.5%, net of OPEB plan investment expense including inflation.
Inflation	2.00% annually as of June 30, 2018 and for future periods
Health Care Trend Rate	5.0% for fiscal year 2018, 4.5% annually thereafter
Salary Increases	3.25% annually as of June 30, 2018 and for future periods
Cost of Living Adjustment	Not applicable
Pre-Retirement Mortality	RP-2014 Blue Collar Mortality Table with Scale MP-2015, fully generational
Post-Retirement Mortality	RP-2014 Blue Collar Mortality Table with Scale MP-2015, fully generational
Disabled Mortality	RP-2000 Mortality Table set forward six years for Group 1 and 2 and set forward two years for Group 4. Generational adjusting is based on Scale MP-2015.
Actuarial Cost Method	Projected Unit Credit. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be first eligibility for retiree medical benefits.

Discount Rate – The discount rate used to measure the total OPEB liability was 7.5%. The only key change in assumptions from the prior valuation was an increase of this discount rate from 4.0%.

Long Term Expected Rate of Return – The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 were as reflected in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity	31.00%	6.11%
International Equity	20.00%	2.78%
Domestic Bond	25.00%	3.82%
International Bond	6.00%	3.94%
Alternatives	17.00%	3.67%
Private Equity	0.00%	12.06%
Cash	1.00%	2.00%
	<u>100.00%</u>	
Real rate of return		5.50%
Inflation assumption		2.00%
Total nominal rate of return		7.50%
Investment expense		0.00%
Net investment return		<u>7.50%</u>

Sensitivity Analysis – The following presents the Town’s net OPEB liability as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

		Discount Rate			
		Current Rate	1% lower	Current	1% greater
Net OPEB Liability	7.50%	\$	7,143,143	\$	6,156,242
					\$5,523,895

		Health Care Rate			
		Current Rate	1% lower	Current	1% greater
Net OPEB Liability	4.50%	\$	5,448,422	\$	6,156,242
					\$7,260,734

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2018:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 9,480,499	\$ 162,024	\$ 9,318,475
Changes for the year:			
Service cost	325,851	-	325,851
Interest	386,192	-	386,192
Difference between expected and actual experience	531,654	-	531,654
Change in assumptions	(4,051,744)	-	(4,051,744)
Net investment income	-	(1,927)	1,927
Employer contributions	-	356,113	(356,113)
Benefit payments withdrawn from trust	-	(306,113)	306,113
Benefit payments	(306,113)	-	(306,113)
Net changes	(3,114,160)	48,073	(3,162,233)
Balances at June 30, 2018	<u>\$ 6,366,339</u>	<u>\$ 210,097</u>	<u>\$ 6,156,242</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Town recognized OPEB expense of \$140,633. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 446,041	\$ -
Differences between expected and actual earnings	10,589	-
Changes in assumptions	-	3,399,289
	<u>\$ 456,630</u>	<u>\$ 3,399,289</u>

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

<u>Year Ended June 30,</u>	<u>Amount</u>
2019	\$ (563,939)
2020	(563,939)
2021	(563,937)
2022	(564,964)
2023	(566,842)
2024	(119,038)
Total	<u>\$ (2,942,659)</u>

GASB Statement No. 74

OPEB Plan disclosures that impact the Town's net OPEB liability using a reporting date of June 30, 2018 are summarized in this section except disclosures under GASB 74 that are identical to GASB 75 are not repeated.

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

Investment Policy – The OPEB Plan follows the same investment policies that apply to all other Town Trust funds. Notably it can be invested in accordance with State Statutes that govern Trust investments including PRIM which is an external investment pool managed by the State.

Investment Rate of Return – For the year ended June 30, 2018 the annual money-weighted rate of return on investments, net of investment expense, was minus 1.16%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Tax Abatements

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

For the fiscal year ended June 30, 2018, the Town did not abate any property taxes under this program.

E. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2018, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$204,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

G. Restatement

The Town has restated the beginning fund balances within the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to merge the Capital Projects major fund balance into the Nonmajor Fund balance as of July 1, 2017. The restatement had the following effect on those fund balances:

Fund Reporting Restatement:

	Library Construction	Welcome Center Construction	Nonmajor Fund	Proprietary Sewer Fund
Net position at June 30, 2017, as reported	\$ (84,163)	\$ -	\$ 1,582,886	\$ 26,891,315
Eliminate previously recorded OPEB obligation	-	-	-	126,469
Record net OPEB liability	-	-	-	(891,386)
Eliminate a major fund for project conclusion	84,163	-	(84,163)	-
Establish a major fund for project reporting	-	815,068	(815,068)	-
Net position at June 30, 2017, as restated	\$ -	\$ 815,068	\$ 683,655	\$ 26,126,398

Government-Wide Reporting Restatement:

	Governmental	Business-Type
Net position at June 30, 2017, as reported	\$ 11,456,299	\$ 32,230,344
Eliminate previously recorded OPEB obligation	3,047,904	126,469
Record net OPEB liability	(8,422,995)	(891,386)
Net position at June 30, 2017, as restated	\$ 6,081,208	\$ 31,465,427

H. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018. The adoption of GASB No. 75 resulted in a reduction in beginning net position of approximately \$5.4 million and \$0.8 million in the Town's governmental and business-type activities, respectively. Refer to Note IIIG.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement was to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

Future Implementations –

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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

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

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF SALISBURY, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**
YEAR ENDED JUNE 30, 2018**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY***(dollar amounts are in thousands)*

	Year Ended June 30,			
	2017	2016	2015	2014
Town's proportion of the net pension liability	3.767%	3.737%	3.549%	3.657%
Town's proportionate share of the net pension liability	\$ 14,180	\$ 14,398	\$ 12,895	\$ 12,408
Town's covered payroll	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Town's proportionate share of the net pension liability as a percentage of its covered payroll	258.1%	294.7%	271.1%	271.2%
Plan fiduciary net position as a percentage of the total pension liability	55.40%	51.12%	51.01%	52.27%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN*(dollar amounts are in thousands)*

	Year Ended June 30,			
	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,266	\$ 1,169	\$ 1,055	\$ 1,006
Contributions in relation to the actuarially determined contribution	<u>1,266</u>	<u>1,169</u>	<u>1,055</u>	<u>1,006</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Contributions as a percentage of covered-employee payroll	23.0%	23.9%	22.2%	22.0%

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

See accompanying independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2018**

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

	2018	2017
Total OPEB liability:		
Service cost	\$ 325,851	\$ 325,851
Interest	386,192	368,705
Differences between expected and actual experience	531,654	-
Changes in assumptions	(4,051,744)	-
Benefit payments	(306,113)	(209,604)
Net change in total OPEB liability	(3,114,160)	484,952
 Total OPEB liability - beginning of year	 9,480,499	 8,995,547
Total OPEB liability - end of year (a)	<u>\$ 6,366,339</u>	<u>\$ 9,480,499</u>
 Plan fiduciary net position:		
Contributions - employer	\$ 356,113	\$ 259,604
Net investment income	(1,927)	341
Benefit payments	(306,113)	(209,604)
Net change in Plan fiduciary net position	48,073	50,341
 Plan fiduciary net position - beginning of year	 162,024	 111,683
Plan fiduciary net position - end of year (b)	<u>\$ 210,097</u>	<u>\$ 162,024</u>
 Net OPEB liability - end of year (a) - (b)	 <u>\$ 6,156,242</u>	 <u>\$ 9,318,475</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 3.30%	 1.70%
 Covered payroll	 \$ 5,655,723	 \$ 4,497,990
 Net OPEB liability as a percentage of covered payroll	 108.85%	 207.17%

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

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

See independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF CONTRIBUTIONS - OPEB PLAN
LAST 10 FISCAL YEARS**

	2018	2017
Actuarially-determined contribution	\$ 712,043	\$ 694,556
Contributions in relation to the actuarially-determined contribution	(356,113)	(259,604)
Contribution deficiency (excess)	<u>\$ 355,930</u>	<u>\$ 434,952</u>
Covered payroll	\$ 5,655,723	\$ 4,497,990
Contribution as a percentage of covered payroll	6.30%	5.77%
Valuation Date	July 1, 2018	July 1, 2016
Amortization Period	30 years	30 years
Investment rate of return	7.50%	4.00%
Municipal Bond Rate	3.45%	3.13%
Discount Rate	7.50%	4.00%
Inflation	2.00%	2.75%
Healthcare cost trend rates	4.50%	5.50%
Salary increases	3.25%	4.00%
Actuarial Cost Method	Individual Entry Age Normal (for all years presented)	
Asset Valuation Method	Market Value of Assets as of Reporting Date (for all years presented)	

**SCHEDULE OF INVESTMENT RETURNS - OPEB PLAN
LAST 10 FISCAL YEARS**

	2018	2017
Annual money-weighted rate of return, net of investment expense	-1.16%	0.25%

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

See independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Continuing	Actual	Variance
	Original	Final	Budgetary	Appropriations and	Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
Revenues:						
Property Taxes	\$ 20,408,131	\$ 20,308,131	\$ 20,295,604	\$ -	\$ 20,295,604	\$ (12,527)
Intergovernmental	1,161,499	1,161,499	1,233,102	-	1,233,102	71,603
Motor Vehicle and Other Excise	1,644,000	1,644,000	1,843,034	-	1,843,034	199,034
Departmental and Other Revenue	523,800	523,800	628,964	-	628,964	105,164
Licenses and Permits	420,000	420,000	540,762	-	540,762	120,762
Penalties and Interest	74,500	74,500	109,361	-	109,361	34,861
Fines and Forfeitures	168,500	168,500	163,221	-	163,221	(5,279)
Investment Income	31,000	31,000	31,528	-	31,528	528
Total Revenues	24,431,430	24,331,430	24,845,576	-	24,845,576	514,146
Expenditures:						
General government	1,971,915	2,277,589	1,856,576	271,016	2,127,592	149,997
Public safety	4,634,661	5,011,516	4,800,816	113,808	4,914,624	96,892
Education	12,564,740	12,584,270	12,584,270	-	12,584,270	-
Public works	1,394,989	1,628,989	1,408,319	148,992	1,557,311	71,678
Health and human services	510,783	517,783	489,952	7,000	496,952	20,831
Culture and recreation	466,090	466,090	462,028	-	462,028	4,062
Fringe and pension benefits	2,785,238	2,718,429	2,600,564	1,500	2,602,064	116,365
State and county tax assessments	138,337	138,337	138,337	-	138,337	-
Debt service	1,066,722	991,722	987,386	-	987,386	4,336
Total Expenditures	25,533,475	26,334,725	25,328,248	\$ 542,316	25,870,564	464,161
Other Financing Sources (Uses):						
Transfers in	622,609	622,609	622,609		622,609	-
Transfers out	-	(371,980)	(371,980)		(371,980)	-
Total Other Financing Sources (Uses)	622,609	250,629	250,629		250,629	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(479,436)	(1,752,666)	\$ (232,043)		\$ (774,359)	\$ 978,307
Other Budgetary Items:						
Prior year encumbrances	260,064	260,064				
Prior year appropriation deficit	(64,223)	(64,223)				
Free cash transfers	-	1,170,230				
Other budgetary items	283,595	386,595				
Total Other Budgetary Items	479,436	1,752,666				
Net Budget	\$ -	\$ -				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town’s annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2018, Town Meeting approved \$1.2 million in supplemental budgetary changes which were funded from free cash and overlay surplus.

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

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2018 is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 24,845,576
Interest earned by stabilization funds	\$ -	\$ 1,006	1,006
Sixty days property tax receipts	11,265	-	11,265
Revenue on a GAAP basis	<u>\$ 11,265</u>	<u>\$ 1,006</u>	<u>\$ 24,857,847</u>
Expenditures on a budgetary basis			\$ 25,328,248
OPEB contribution	\$ -	\$ 40,000	40,000
Capital project funding	-	-	-
Indirect cost allocations	-	(562,314)	(562,314)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (522,314)</u>	<u>\$ 24,805,934</u>
Transfers on a budgetary basis (net)			\$ 250,629
Stabilization transfers	\$ -	\$ 100,000	100,000
OPEB contribution	-	40,000	40,000
Special revenue account closure	7,272	-	7,272
Indirect cost allocations	-	(562,314)	(562,314)
Transfers on a GAAP basis (net)	<u>\$ 7,272</u>	<u>\$ (422,314)</u>	<u>\$ (164,413)</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Salisbury, Massachusetts (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 19, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 19, 2019