

**TOWN OF SALISBURY, MASSACHUSETTS**

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

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

# TOWN OF 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the funding progress and contribution funding for other postemployment benefits, the schedules of changes in net other postemployment liability, ratios and contributions, schedule of investment returns for other postemployment benefit plans and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts 01801  
March 8, 2018

## 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, 2017.

### **Financial Highlights**

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$43.7 million (*total net position*). Of this amount, approximately \$11.5 million represented net position of governmental activities and \$32.2 million represented net position of the business-type activities.
- The government's total net position increased by nearly \$4.7 million or approximately 11.9% year to year. Almost the entire increase was from governmental activities which increased net position by almost \$4.7 million, while the business-type activities were flat when compared to the prior year.
- The Town's Unassigned Fund Balance reported in the General Fund was over \$2.3 million (10.1% of General Fund expenditures); and the total fund balance in the General Fund was nearly \$3.1 million (13.3% of General Fund expenditures). Within the Nonmajor Funds, which reported total fund balances of nearly \$1.6 million, the Town had restricted fund balances that exceeded \$1.9 million and total unassigned deficits of over \$0.4 million. In addition, a small portion of the Nonmajor Funds represented amounts that are nonspendable as corpus of endowment of about \$54,000. The Town also presented a major fund for library construction that had an unassigned deficit of approximately \$84,000 and a major fund for police station construction which reported an unassigned deficit of approximately \$0.8 million, all due to construction funded from short-term borrowings.
- The Town's total long-term debt increased by almost \$12.8 million during the fiscal year as a result of \$14.4 million in bonds issued during the year offset by 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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b><u>Assets</u></b>						
Current and other assets	\$ 9,933,326	\$ 16,033,943	\$ 11,996,952	\$ 11,119,620	\$ 21,930,278	\$ 27,153,563
Capital assets, net	37,628,794	26,650,730	38,847,685	39,517,224	76,476,479	66,167,954
Total assets	47,562,120	42,684,673	50,844,637	50,636,844	98,406,757	93,321,517
<b><u>Deferred Outflows of Resources</u></b>	1,600,042	603,776	215,495	71,462	1,815,537	675,238
<b><u>Liabilities</u></b>						
Long-term liabilities	32,980,368	16,448,322	15,123,954	15,536,983	48,104,322	31,985,305
Other liabilities	4,112,129	19,524,104	3,623,225	2,885,046	7,735,354	22,409,150
Total liabilities	37,092,497	35,972,426	18,747,179	18,422,029	55,839,676	54,394,455
<b><u>Deferred Inflows of Resources</u></b>	613,366	512,498	82,609	60,658	695,975	573,156
<b><u>Net Position</u></b>						
Net investment in capital assets	20,554,730	16,562,635	23,911,942	23,537,974	44,466,672	40,100,609
Restricted	2,002,632	1,311,176	-	-	2,002,632	1,311,176
Unrestricted	(11,101,063)	(11,070,286)	8,318,402	8,687,645	(2,782,661)	(2,382,641)
Total Net Position	\$ 11,456,299	\$ 6,803,525	\$ 32,230,344	\$ 32,225,619	\$ 43,686,643	\$ 39,029,144

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$43.7 million (*total net position*). This reflects an increase from the preceding year by almost \$4.7 million; the primary driver for this increase was capital grants and contributions of \$5.5 million received for a beach improvement, seawall and drainage project.

By far the largest portion (almost \$44.5 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its

capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$2.0 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 \$2.8 million. This has resulted from the recognition of other postemployment benefits of approximately \$3.2 million since inception in 2009 as well as recognition of approximately \$14.4 million of net pension liabilities with the implementation of GASB Statement 68 in fiscal year 2015.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 1,997,571	\$ 1,934,772	\$ 5,118,713	\$ 6,037,355	\$ 7,116,284	\$ 7,972,127
Operating grants and contributions	969,679	780,601	-	-	969,679	780,601
Capital grants and contributions	5,546,616	3,672,418	6,368	1,571,809	5,552,984	5,244,227
General revenues:						
Property taxes	19,030,658	18,309,439	-	-	19,030,658	18,309,439
Intergovernmental	874,736	763,246	-	-	874,736	763,246
Other	1,839,900	1,798,011	29,626	30,488	1,869,526	1,828,499
<b>Total Revenues</b>	<b>30,259,160</b>	<b>27,258,487</b>	<b>5,154,707</b>	<b>7,639,652</b>	<b>35,413,867</b>	<b>34,898,139</b>
<b><u>Expenses</u></b>						
General government	2,454,791	2,187,748	-	-	2,454,791	2,187,748
Public safety	7,181,320	6,193,654	-	-	7,181,320	6,193,654
Education	12,109,619	11,823,859	-	-	12,109,619	11,823,859
Public works	1,443,163	719,292	-	-	1,443,163	719,292
Health and human services	707,471	617,675	-	-	707,471	617,675
Culture and recreation	784,121	322,680	-	-	784,121	322,680
Community development	571,777	1,346,330	-	-	571,777	1,346,330
Interest expense	354,124	122,160	-	-	354,124	122,160
Water	-	-	2,670,623	2,665,683	2,670,623	2,665,683
Sewer	-	-	2,602,606	2,281,678	2,602,606	2,281,678
<b>Total Expenses</b>	<b>25,606,386</b>	<b>23,333,398</b>	<b>5,273,229</b>	<b>4,947,361</b>	<b>30,879,615</b>	<b>28,280,759</b>
Increase in net position before transfers	4,652,774	3,925,089	(118,522)	2,692,291	4,534,252	6,617,380
Transfers	-	(8,836)	123,247	8,836	123,247	-
Change in net position	4,652,774	3,916,253	4,725	2,701,127	4,657,499	6,617,380
Net position, beginning of year	6,803,525	2,887,272	32,225,619	29,524,492	39,029,144	32,411,764
Net position, end of year	<u>\$ 11,456,299</u>	<u>\$ 6,803,525</u>	<u>\$ 32,230,344</u>	<u>\$ 32,225,619</u>	<u>\$ 43,686,643</u>	<u>\$ 39,029,144</u>

**Governmental Activities.** The Town relies to a great extent on property taxes, which during 2017 were approximately \$0.7 million greater than the prior year and made up about 63% 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 and amounts allowed to be assessed 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 \$5.5 million, including \$2.6 million in grants for Seawall Construction and \$2.1 million for Beach Center Improvements and the Boardwalk represented 18.3% of the Town's fiscal year 2017 revenues, up from 13.5% in 2016. The Town continues to



aggressively pursue grants and donations as it embarks on a major capital renaissance that began almost a decade ago.

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

Major expenses during fiscal 2017 were for education and public safety which comprised 47.3% and 28.0%, respectively, of total expenses. Education expenses increased approximately \$0.3 million primarily from increased regional school assessments. Public safety expenses increased approximately \$1.0 million and included increases to depreciation due to the new Police Station, benefits allocation due to higher pension and OPEB allocations and wages. All other functions that include wages, which individually represent less than 10% of total expenses increased modestly due to higher pension and OPEB allocations similar to Public Safety but on a smaller dollar scale. Community Development expenses decreased due to the program winding down.

***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 97.0% of total revenues. Revenues decreased nearly \$2.5 million; over \$1.0 million of the decrease was due to a decrease in connection fees as the system expansion in both water and sewer is winding down. The additional \$1.5 million decrease was due to a capital grant received in the prior year that was not received in the current year.

Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 72.3% pertains to direct operational costs with the remaining costs represented by debt service (approximately 2.8%) and current year depreciation (approximately 24.9%). Expenses increased over \$0.3 million due to increased wages and benefits, and increased maintenance in the sewer department.

### **Financial Analysis of the Government's Funds**

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$3.8 million. This is an increase of over \$9.3 million from the previous year as the Town issued \$14.4 million in bonds and received almost \$2.6 million in donations related to numerous large construction projects as well as over \$2.5 million in capital grants that were offset by almost \$11.2 million in actual construction. Of the ending fund balance over \$1.9 million is earmarked for specific expenditures and *unassigned fund balance* has a balance of \$1.0 million. The remainder is spread between assigned, committed and spendable.

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 \$2.3 million, while total fund balance totaled approximately \$3.1 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 10.1% of total General Fund expenditures, while total fund balance represents approximately 13.3% of that same amount.

**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 approximately \$5.3 million; and net position of the Sewer Fund amounted to approximately \$27.0 million.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were minor. 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, 2017, amounts to approximately \$76.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, machinery and equipment and reflects an increase of approximately \$10.3 million, net of depreciation, as a result of approximately \$12.5 million of capital asset additions offset by over \$2.2 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 sewerage 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 C. of this report.

**Long-term Debt.** At the end of the current fiscal year, the Town had total debt outstanding of approximately \$27.9 million. Of this amount approximately \$15.3 million represents general obligation bonds of governmental activities and approximately \$12.6 million represents general obligation bonds of business-type activities.

The Town's total long-term debt increased by approximately \$12.8 million during the fiscal year as a result of \$14.4 million of bonds issued offset by 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 \$80.2 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 E. and Note 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 2018. 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 2018 is expected to be approximately 82.0% 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 2018, however recent increases to borrowing rates could stagnate growth to a certain extent.
- The Town set its tax rate for fiscal year 2018 in December 2017.

The above items were considered when the Town developed its budget for fiscal year 2018 which was approved at Annual Town Meeting in the spring of 2017.

### **Requests for Information**

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

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 7,129,665	\$ 8,562,597	\$ 15,692,262
Receivables (net):			
Property taxes	762,510	-	762,510
Excise taxes	139,415	-	139,415
User fees	-	1,045,738	1,045,738
Departmental and other	200,000	-	200,000
Betterments	-	2,363,901	2,363,901
Intergovernmental	786,399	24,716	811,115
Tax foreclosures	915,337	-	915,337
Capital assets, not being depreciated	4,653,797	4,802,035	9,455,832
Capital assets, net of accumulated depreciation	32,974,997	34,045,650	67,020,647
<b>Total Assets</b>	47,562,120	50,844,637	98,406,757
<b>Deferred Outflows of Resources</b>	1,600,042	215,495	1,815,537
<b>Liabilities</b>			
Warrants and accounts payable	557,437	232,376	789,813
Accrued payroll and withholdings	446,013	12,667	458,680
Accrued interest expense	-	223,182	223,182
Retainage payable	75,683	-	75,683
Other liabilities	403,796	-	403,796
Bond anticipation notes	2,629,200	3,155,000	5,784,200
Noncurrent liabilities:			
Due within one year	775,503	1,020,464	1,795,967
Due in more than one year	32,204,865	14,103,490	46,308,355
<b>Total Liabilities</b>	37,092,497	18,747,179	55,839,676
<b>Deferred Inflows of Resources</b>	613,366	82,609	695,975
<b>Net Position</b>			
Net investment in capital assets	20,554,730	23,911,942	44,466,672
Restricted:			
Nonexpendable permanent funds	54,145	-	54,145
Expendable permanent funds	118,597	-	118,597
Federal and State grants	934,840	-	934,840
Other purposes	895,050	-	895,050
Unrestricted	(11,101,063)	8,318,402	(2,782,661)
<b>Total Net Position</b>	\$ 11,456,299	\$ 32,230,344	\$ 43,686,643

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

2017-2018							
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	\$ 2,454,791	\$ 701,583	\$ 94,877	\$ 19,054	\$ (1,639,277)		\$ (1,639,277)
Public safety	7,181,320	1,053,895	256,221	23,300	(5,847,904)		(5,847,904)
Education	12,109,619	-	33,688	-	(12,075,931)		(12,075,931)
Public works	1,443,163	-	22,919	5,481,346	4,061,102		4,061,102
Health and human services	707,471	71,638	320,757	-	(315,076)		(315,076)
Culture and recreation	784,121	17,016	27,437	22,916	(716,752)		(716,752)
Community development	571,777	153,439	213,780	-	(204,558)		(204,558)
Interest expense	354,124	-	-	-	(354,124)		(354,124)
Total governmental activities	25,606,386	1,997,571	969,679	5,546,616	(17,092,520)		(17,092,520)
Business-type activities:							
Water	2,670,623	2,797,161	-	-		\$ 126,538	126,538
Sewer	2,602,606	2,321,552	-	6,368		(274,686)	(274,686)
Total business-type activities	5,273,229	5,118,713	-	6,368		(148,148)	(148,148)
Total Primary Government	\$ 30,879,615	\$ 7,116,284	\$ 969,679	\$ 5,552,984	(17,092,520)	(148,148)	(17,240,668)
General Revenues:							
Property taxes					19,030,658	-	19,030,658
Grants and contributions not restricted to specific programs					874,736	-	874,736
Motor vehicle and other excise					1,722,278	-	1,722,278
Penalties and interest on taxes					71,693	-	71,693
Unrestricted investment income					45,929	29,626	75,555
Transfers (net)					-	123,247	123,247
Total general revenues					21,745,294	152,873	21,898,167
Change in Net Position					4,652,774	4,725	4,657,499
Net Position:							
Beginning of year					6,803,525	32,225,619	39,029,144
End of year					\$ 11,456,299	\$ 32,230,344	\$ 43,686,643

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	<u>General Fund</u>	<u>Library Construction</u>	<u>Police Station Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 3,668,876	\$ 18,837	\$ 1,822,707	\$ 1,619,245	\$ 7,129,665
Receivables:					
Property taxes	762,510	-	-	-	762,510
Excise taxes	139,415	-	-	-	139,415
Departmental and other	-	200,000	-	-	200,000
Intergovernmental	75,908	-	-	710,491	786,399
Tax foreclosures	915,337	-	-	-	915,337
<b>Total Assets</b>	<u>5,562,046</u>	<u>218,837</u>	<u>1,822,707</u>	<u>2,329,736</u>	<u>9,933,326</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 5,562,046</u></u>	<u><u>\$ 218,837</u></u>	<u><u>\$ 1,822,707</u></u>	<u><u>\$ 2,329,736</u></u>	<u><u>\$ 9,933,326</u></u>
<b>Liabilities</b>					
Warrants and accounts payable	\$ 114,725	\$ -	\$ 188,027	\$ 254,685	\$ 557,437
Accrued payroll	422,936	-	-	23,077	446,013
Retainage payable	-	-	60,190	15,493	75,683
Bond anticipation notes	-	103,000	2,372,400	153,800	2,629,200
Other liabilities	104,002	-	-	299,795	403,797
<b>Total Liabilities</b>	<u>641,663</u>	<u>103,000</u>	<u>2,620,617</u>	<u>746,850</u>	<u>4,112,130</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	699,610	-	-	-	699,610
Unavailable revenue - excise taxes	139,415	-	-	-	139,415
Unavailable revenue - other	991,245	200,000	-	-	1,191,245
<b>Total Deferred Inflows of Resources</b>	<u>1,830,270</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>2,030,270</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	54,145	54,145
Restricted	-	-	-	1,948,487	1,948,487
Committed	720,945	-	-	-	720,945
Assigned	25,714	-	-	-	25,714
Unassigned	2,343,454	(84,163)	(797,910)	(419,746)	1,041,635
<b>Total Fund Balances</b>	<u>3,090,113</u>	<u>(84,163)</u>	<u>(797,910)</u>	<u>1,582,886</u>	<u>3,790,926</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u><u>\$ 5,562,046</u></u>	<u><u>\$ 218,837</u></u>	<u><u>\$ 1,822,707</u></u>	<u><u>\$ 2,329,736</u></u>	<u><u>\$ 9,933,326</u></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, 2017**

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<b>Total Governmental Fund Balances</b>	<b>\$ 3,790,926</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	37,628,794
Other long-term assets are not available to pay for current period expenditures and, therefore are reported as unavailable revenue in the funds.	2,030,270
Deferred outflows and (inflows) of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds	986,676
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	(15,287,874)
Unamortized bond premium	(251,399)
Capital lease obligations	(606,373)
Post-closing landfill monitoring costs	(224,500)
Compensated absences	(873,326)
Other postemployment benefits	(3,047,904)
Net pension liability	<u>(12,688,991)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 11,456,299</u></b>

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, 2017**

	General Fund	Library Construction	Police Station Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 18,914,867	\$ -	\$ -	\$ -	\$ 18,914,867
Intergovernmental	1,223,444	-	-	3,453,475	4,676,919
Excise taxes	1,703,792	-	-	-	1,703,792
Licenses and permits	451,139	-	-	-	451,139
Departmental and other revenue	715,162	-	-	648,101	1,363,263
Penalties and interest on taxes	71,693	-	-	-	71,693
Fines and forfeitures	183,169	-	-	-	183,169
Investment income	45,437	-	-	492	45,929
Contributions and donations	-	114,006	5,000	2,718,566	2,837,572
<b>Total Revenues</b>	<u>23,308,703</u>	<u>114,006</u>	<u>5,000</u>	<u>6,820,634</u>	<u>30,248,343</u>
<b>Expenditures:</b>					
Current:					
General government	1,751,647	-	-	209,516	1,961,163
Public safety	4,207,720	-	5,975,101	1,197,815	11,380,636
Education	12,106,476	-	-	-	12,106,476
Public works	1,191,204	-	-	4,902,604	6,093,808
Health and human services	475,007	-	-	100,632	575,639
Culture and recreation	420,582	36,142	-	53,209	509,933
Community development	-	-	-	516,586	516,586
Fringe and pension benefits	2,397,234	-	-	-	2,397,234
State and county tax assessments	128,903	-	-	-	128,903
Debt service:					
Principal	167,719	100,000	-	-	267,719
Interest	364,643	-	-	-	364,643
<b>Total Expenditures</b>	<u>23,211,135</u>	<u>136,142</u>	<u>5,975,101</u>	<u>6,980,362</u>	<u>36,302,740</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>97,568</u>	<u>(22,136)</u>	<u>(5,970,101)</u>	<u>(159,728)</u>	<u>(6,054,397)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	68,130	-	500,000	108,800	676,930
Transfers out	(608,800)	-	-	(68,130)	(676,930)
Issuance of long-term debt	-	3,022,000	9,453,800	1,936,200	14,412,000
Premium from issuance of long-term debt	261,918	-	-	-	261,918
Capital leases	-	-	-	681,019	681,019
<b>Total Other Financing Sources (Uses)</b>	<u>(278,752)</u>	<u>3,022,000</u>	<u>9,953,800</u>	<u>2,657,889</u>	<u>15,354,937</u>
<b>Net Change in Fund Balances</b>	(181,184)	2,999,864	3,983,699	2,498,161	9,300,540
Fund Balances - Beginning, as restated	<u>3,271,297</u>	<u>(3,084,027)</u>	<u>(4,781,609)</u>	<u>(915,275)</u>	<u>(5,509,614)</u>
Fund Balances - Ending	<u>\$ 3,090,113</u>	<u>\$ (84,163)</u>	<u>\$ (797,910)</u>	<u>\$ 1,582,886</u>	<u>\$ 3,790,926</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, 2017**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 9,300,540**

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	\$ 11,890,353	
Depreciation expense	(912,289)	
Net effect of reporting capital assets		10,978,064

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	267,719	
Proceeds from bank note transactions	(14,412,000)	
Premiums from issuance of bonds and notes	(251,399)	
Net effect of reporting long-term debt		(14,395,680)

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.

10,817

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	
Additions to capital lease obligations	(681,019)	
Payments of minimum capital lease principal obligations	101,840	
Other postemployment benefits	(418,465)	
Pension benefits	(263,323)	
Net effect of reporting long-term liabilities		(1,240,967)

**Change in Net Position of Governmental Activities** **\$ 4,652,774**

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2017**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,483,955	\$ 6,078,642	\$ 8,562,597
Receivables, net:			
User charges	385,532	660,206	1,045,738
Betterments	-	2,737	2,737
Intergovernmental	-	12,320	12,320
Total current assets	<u>2,869,487</u>	<u>6,753,905</u>	<u>9,623,392</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	2,361,164	2,361,164
Intergovernmental	-	12,396	12,396
Land	369,002	1,383,999	1,753,001
Construction in progress	2,096,225	952,809	3,049,034
Capital assets, net of depreciation	<u>13,018,028</u>	<u>21,027,622</u>	<u>34,045,650</u>
Total noncurrent assets	<u>15,483,255</u>	<u>25,737,990</u>	<u>41,221,245</u>
<b>Total Assets</b>	<u>18,352,742</u>	<u>32,491,895</u>	<u>50,844,637</u>
<b>Deferred Outflows of Resources</b>	<u>41,803</u>	<u>173,692</u>	<u>215,495</u>
<b>Liabilities</b>			
Current liabilities:			
Warrants and accounts payable	70,135	162,241	232,376
Accrued payroll	-	12,667	12,667
Accrued interest expense	155,843	67,339	223,182
Bond anticipation notes payable	2,480,000	675,000	3,155,000
Bonds and notes payable	620,708	383,400	1,004,108
Compensated absences	-	16,356	16,356
Total current liabilities	<u>3,326,686</u>	<u>1,317,003</u>	<u>4,643,689</u>
Noncurrent liabilities:			
Bonds and notes payable	9,381,292	2,837,700	12,218,992
Compensated absences	-	49,067	49,067
Other postemployment benefits	-	126,469	126,469
Net pension liability	<u>331,513</u>	<u>1,377,449</u>	<u>1,708,962</u>
Total noncurrent liabilities	<u>9,712,805</u>	<u>4,390,685</u>	<u>14,103,490</u>
<b>Total Liabilities</b>	<u>13,039,491</u>	<u>5,707,688</u>	<u>18,747,179</u>
<b>Deferred Inflows of Resources</b>	<u>16,025</u>	<u>66,584</u>	<u>82,609</u>
<b>Net Position</b>			
Net investment in capital assets	3,999,798	19,912,144	23,911,942
Unrestricted	<u>1,339,231</u>	<u>6,979,171</u>	<u>8,318,402</u>
<b>Total Net Position</b>	<u>\$ 5,339,029</u>	<u>\$ 26,891,315</u>	<u>\$ 32,230,344</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, 2017**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Operating Revenues:</b>			
Charges for services	\$ 2,797,161	\$ 2,321,552	\$ 5,118,713
<b>Total Operating Revenues</b>	<u>2,797,161</u>	<u>2,321,552</u>	<u>5,118,713</u>
<b>Operating Expenses:</b>			
Operating costs	1,753,706	1,595,842	3,349,548
Depreciation	459,925	853,279	1,313,204
<b>Total Operating Expenses</b>	<u>2,213,631</u>	<u>2,449,121</u>	<u>4,662,752</u>
<b>Operating Income (Loss)</b>	<u>583,530</u>	<u>(127,569)</u>	<u>455,961</u>
<b>Nonoperating Revenues (Expenses):</b>			
Interest income	11,530	18,096	29,626
Interest expense	(456,992)	(153,485)	(610,477)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(445,462)</u>	<u>(135,389)</u>	<u>(580,851)</u>
<b>Income Before Capital Contributions and Transfers</b>	<u>138,068</u>	<u>(262,958)</u>	<u>(124,890)</u>
Intergovernmental capital grants	-	6,368	6,368
Transfers in	-	-	-
Betterments	-	123,247	123,247
<b>Change in Net Position</b>	<u>138,068</u>	<u>(133,343)</u>	<u>4,725</u>
Total Net Position - Beginning	<u>5,200,961</u>	<u>27,024,658</u>	<u>32,225,619</u>
Total Net Position - Ending	<u>\$ 5,339,029</u>	<u>\$ 26,891,315</u>	<u>\$ 32,230,344</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Sewer	
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 2,725,576	\$ 2,309,595	\$ 5,035,171
Payments to employees	-	(329,922)	(329,922)
Payments to vendors	(1,706,131)	(987,345)	(2,693,476)
Net Cash Provided by Operating Activities	1,019,445	992,328	2,011,773
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Issuances of bonds and notes	-	675,000	675,000
Premiums from issuance of bonds and notes	607,498	-	607,498
Receipts from betterments	-	426,012	426,012
Government subsidy	-	17,666	17,666
Acquisition and construction of capital assets	(114,497)	(529,168)	(643,665)
Principal payments on bonds and notes	(991,189)	(398,000)	(1,389,189)
Interest expense	(478,737)	(148,131)	(626,868)
Net Cash Used for Capital and Related Financing Activities	(976,925)	43,379	(933,546)
<b>Cash Flows from Investing Activities:</b>			
Interest income	11,530	18,096	29,626
Net Cash Provided by Investing Activities	11,530	18,096	29,626
<b>Net Change in Cash and Cash Equivalents</b>	54,050	1,053,803	1,107,853
<b>Cash and Cash Equivalents:</b>			
Beginning of year	\$ 2,429,905	5,024,839	7,454,744
End of year	\$ 2,483,955	\$ 6,078,642	\$ 8,562,597
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</b>			
Operating income (loss)	\$ 583,530	\$ (127,569)	\$ 455,961
Depreciation expense	459,925	853,279	1,313,204
Changes in assets and deferred outflows and liabilities and deferred inflows:			
Receivables	(71,585)	(11,957)	(83,542)
Deferred outflows of resources	(28,436)	(115,597)	(144,033)
Deferred inflows of resources	4,679	17,272	21,951
Accounts payable and accrued expenses	71,332	376,900	448,232
Net Cash Provided by Operating Activities	\$ 1,019,445	\$ 992,328	\$ 2,011,773

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

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2017**

	Affordable Housing Trust	Other Postemployment Benefits Trust	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 713,157	\$ 162,024	\$ 129,213
Receivables	<u>113,795</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u>826,952</u>	<u>162,024</u>	<u>129,213</u>
<b>Liabilities</b>			
Warrants and accounts payable	-	-	-
Planning and performance bonds	<u>-</u>	<u>-</u>	<u>129,213</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>129,213</u>
<b>Net Position</b>			
Held in trust	<u>826,952</u>	<u>162,024</u>	<u>-</u>
<b>Total Net Position</b>	<u><u>\$ 826,952</u></u>	<u><u>\$ 162,024</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, 2017**

	Affordable Housing Trust	Other Postemployment Benefits Trust
<b>Additions:</b>		
Investment income	\$ 2,995	\$ 341
Contributions and donations	77,067	259,604
<b>Total Additions</b>	80,062	259,945
<b>Deductions:</b>		
Benefit payments	-	209,604
Public housing assistance	14,358	-
<b>Total Deductions</b>	14,358	209,604
<b>Change in Net Position</b>	65,704	50,341
Net Position - Beginning	761,248	111,683
Net Position - Ending	<b>\$ 826,952</b>	<b>\$ 162,024</b>

See accompanying notes to basic financial statements.

## TOWN OF SALISBURY, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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#### **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, 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 2017, the Town's share of the operating and debt service expenses was \$11,225,287. 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.



*Library Construction Fund* – Accounts for all the activity associated with the renovation of the Town’s library.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items which qualify for reporting in this category:

- 1) Arising only under a modified accrual basis of accounting, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 2) The Town has one item that is reported on the government-wide statement of net position which relate to inflows from changes in the net pension liability. The deferred pensions

will be recognized in pension expense in future years as more fully described in Note III, subsection A.

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

Net position 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 \$661,218 at June 30, 2017 and is reported as unassigned fund balance in the General Fund.

*Encumbrances* - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the 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 \$720,945 of encumbrances from Town Meeting votes in the general fund as committed. The Town also reports \$25,714 of encumbrances approved by the Finance Director as assigned. There are no encumbrances reported in the other funds.

The following represent the categorizations of fund balance:

	General	Library Construction Fund	Police Station Construction Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 54,145	\$ 54,145
Restricted:					
General government	-	-	-	345,134	345,134
Public safety	-	-	-	325,073	325,073
Public works	-	-	-	1,051,361	1,051,361
Health and human services	-	-	-	39,373	39,373
Culture and recreation	-	-	-	152,428	152,428
Community preservation	-	-	-	35,118	35,118
Committed:					
General government	63,250	-	-	-	63,250
Public safety	126,100	-	-	-	126,100
Public works	45,000	-	-	-	45,000
Subsequent year expenditures	486,595	-	-	-	486,595
Assigned:					
General government	24,214	-	-	-	24,214
Pension and fringe benefits	1,500	-	-	-	1,500
Unassigned	2,343,454	(84,163)	(797,910)	(419,746)	1,041,635
<b>Totals</b>	<u>\$ 3,090,113</u>	<u>\$ (84,163)</u>	<u>\$ (797,910)</u>	<u>\$ 1,582,886</u>	<u>\$ 3,790,926</u>

## **E. Excess of Expenditures Over Appropriations and Deficits**

The Town incurred deficits in its Library Construction Major Fund and Police Station Construction Major Fund totaling \$84,163, and \$797,910 respectively. The Town also incurred individual fund deficits in its non-major governmental funds in the aggregate amount of \$419,746. 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 \$16,696,656 and the bank balance was \$16,987,707. Of the Town's bank balance, \$11,901,738 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.

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

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

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

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

The Town did not report any investments carried at fair value in the statement of net position at June 30, 2017.

*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.

## B. Receivables

*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 \$100,624 and interest in the amount of \$18,676 until the maturity of these agreements. In this situation, GAAP requires the recognition of gross debt; therefore, the principal amounts of \$75,908 and \$24,716 are reported within the General Fund and Sewer Enterprise Funds, respectively.

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	\$ 342,780	\$ (183,780)	\$ 159,000
Tax deferrals	28,704	-	28,704
Tax liens	574,806	-	574,806
Excise taxes	347,884	(208,469)	139,415
Debt subsidy	200,000	-	200,000
Intergovernmental	786,399	-	786,399
Tax foreclosures	915,337	-	915,337
Total	<u>\$ 3,195,910</u>	<u>\$ (392,249)</u>	<u>\$ 2,803,661</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	\$ 384,652	\$ -	\$ 384,652
Water liens	880	-	880
Sewer user fees	657,152	-	657,152
Sewer liens	3,054	-	3,054
Sewer betterments - apportioned	2,737	-	2,737
Sewer betterments - unapportioned	2,361,164	-	2,361,164
Intergovernmental	24,716	-	24,716
Total	<u>\$ 3,434,355</u>	<u>\$ -</u>	<u>\$ 3,434,355</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	Library Construction Fund	Total
Receivables and other asset type:			
Real estate and personal property taxes	\$ 96,100	\$ -	\$ 96,100
Tax deferrals	28,704	-	28,704
Tax liens	574,806	-	574,806
Excise taxes	139,415	-	139,415
Debt subsidy	-	200,000	200,000
Intergovernmental	75,908	-	75,908
Tax foreclosures	915,337	-	915,337
Total	<u>\$ 1,830,270</u>	<u>\$ 200,000</u>	<u>\$ 2,030,270</u>



## C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 2,818,550	\$ 1,233,984	\$ -	\$ 4,052,534
Construction in process	6,642,260	601,263	(6,642,260)	601,263
Total capital assets not being depreciated	9,460,810	1,835,247	(6,642,260)	4,653,797
Capital assets being depreciated:				
Buildings and improvements	12,120,514	10,766,326	-	22,886,840
Infrastructure	10,935,473	4,920,837	-	15,856,310
Machinery and equipment	1,659,843	265,999	-	1,925,842
Vehicles	2,527,272	744,204	(30,655)	3,240,821
Total capital assets being depreciated	27,243,102	16,697,366	(30,655)	43,909,813
Less accumulated depreciation for:				
Buildings and improvements	(1,857,097)	(424,100)	-	(2,281,197)
Infrastructure	(4,785,186)	(240,865)	-	(5,026,051)
Machinery and equipment	(1,187,435)	(127,548)	-	(1,314,983)
Vehicles	(2,223,464)	(119,776)	30,655	(2,312,585)
Total accumulated depreciation	(10,053,182)	(912,289)	30,655	(10,934,816)
Total capital assets being depreciated, net	17,189,920	15,785,077	-	32,974,997
Governmental activities capital assets, net	<u>\$ 26,650,730</u>	<u>\$ 17,620,324</u>	<u>\$ (6,642,260)</u>	<u>\$ 37,628,794</u>
<u><i>Business Activities - All:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Construction in process	2,568,649	480,385	-	3,049,034
Total capital assets not being depreciated	4,321,650	480,385	-	4,802,035
Capital assets being depreciated:				
Buildings and improvements	39,100	-	-	39,100
Infrastructure	58,398,613	117,980	-	58,516,593
Machinery and equipment	1,013,399	45,300	-	1,058,699
Vehicles	242,082	-	-	242,082
Total capital assets being depreciated	59,693,194	163,280	-	59,856,474
Less accumulated depreciation for:				
Buildings and improvements	(3,164)	(1,263)	-	(4,427)
Infrastructure	(23,814,488)	(1,237,977)	-	(25,052,465)
Machinery and equipment	(485,059)	(60,486)	-	(545,545)
Vehicles	(194,909)	(13,478)	-	(208,387)
Total accumulated depreciation	(24,497,620)	(1,313,204)	-	(25,810,824)
Total capital assets being depreciated, net	35,195,574	(1,149,924)	-	34,045,650
Business activities capital assets, net	<u>\$ 39,517,224</u>	<u>\$ (669,539)</u>	<u>\$ -</u>	<u>\$ 38,847,685</u>

	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	1,981,728	114,497	-	2,096,225
Total capital assets not being depreciated	2,350,730	114,497	-	2,465,227
Capital assets being depreciated:				
Infrastructure	17,878,060	-	-	17,878,060
Machinery and equipment	613,748	-	-	613,748
Total capital assets being depreciated	18,491,808	-	-	18,491,808
Less accumulated depreciation for:				
Infrastructure	(4,633,673)	(425,057)	-	(5,058,730)
Machinery and equipment	(380,182)	(34,868)	-	(415,050)
Total accumulated depreciation	(5,013,855)	(459,925)	-	(5,473,780)
Total Water capital assets being depreciated, net	13,477,953	(459,925)	-	13,018,028
<u>Business-type Activities: Sewer</u>				
Capital assets being depreciated:				
Land	1,383,999	-	-	1,383,999
Construction in process	586,921	365,888	-	952,809
Total capital assets not being depreciated	1,970,920	365,888	-	2,336,808
Capital assets being depreciated:				
Buildings	39,100	-	-	39,100
Infrastructure	40,520,553	117,980	-	40,638,533
Machinery and equipment	399,651	45,300	-	444,951
Vehicles	242,082	-	-	242,082
Total capital assets being depreciated	41,201,386	163,280	-	41,364,666
Less accumulated depreciation for:				
Buildings	(3,164)	(1,263)	-	(4,427)
Infrastructure	(19,180,815)	(812,920)	-	(19,993,735)
Machinery and equipment	(104,877)	(25,618)	-	(130,495)
Vehicles	(194,909)	(13,478)	-	(208,387)
Total accumulated depreciation	(19,483,765)	(853,279)	-	(20,337,044)
Total Sewer capital assets being depreciated, net	21,717,621	(689,999)	-	21,027,622
Total Business-type activities - capital assets, net	\$ 39,517,224	\$ (669,539)	\$ -	\$ 38,847,685
Depreciation expense was charged to functions/programs as follows:				
<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>		
General government	\$ 75,879	Water	\$ 459,925	
Public safety	317,146	Sewer	853,279	
Public works	280,638	Total Business-Type Activities	\$ 1,313,204	
Culture and recreation	238,626			
Total Governmental Activities	\$ 912,289			

#### D. Interfund Receivables, Payables and Transfers

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

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>	
	<u>General Fund</u>	<u>Police Station Construction</u>	<u>Nonmajor Funds</u>		
General Fund	\$ -	\$ 500,000	\$ 108,800	\$ 608,800	(1)
Nonmajor Governmental Funds	68,130	-	-	68,130	(2)
Total	<u>\$ 68,130</u>	<u>\$ 500,000</u>	<u>\$ 108,800</u>	<u>\$ 676,930</u>	

(1) Transfer to police station construction fund and nonmajor fund to supplement other capital project related activities.

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

#### 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, 2017, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2016	Additions	Retirements	June 30, 2017
BAN	2.00%	09/15/16	\$10,700,000	\$ -	\$(10,700,000)	\$ -
BAN	0.85%	09/15/16	1,050,000	-	(1,050,000)	-
BAN	1.50%	09/15/16	5,566,344	-	(5,566,344)	-
BAN	1.75%	09/15/16	90,000	-	(90,000)	-
BAN	2.10%	09/15/16	400,000	-	(400,000)	-
GAN	1.50%	10/14/16	100,000	-	(100,000)	-
BAN	2.00%	09/15/17	-	12,329,200	(9,800,000)	2,529,200
GAN	1.30%	09/15/17	-	100,000	-	100,000
Total Governmental Notes			<u>17,906,344</u>	<u>12,429,200</u>	<u>(27,706,344)</u>	<u>2,629,200</u>
BAN	1.50%	09/15/16	1,490,000	-	(1,490,000)	-
BAN	2.10%	09/15/16	1,000,000	-	(1,000,000)	-
BAN	2.00%	09/15/17	-	2,480,000	-	2,480,000
Total Business-Type Notes - Water			<u>2,490,000</u>	<u>2,480,000</u>	<u>(2,490,000)</u>	<u>2,480,000</u>
BAN	2.00%	09/15/17	-	675,000	-	675,000
Total Business-Type Notes - Sewer			<u>-</u>	<u>675,000</u>	<u>-</u>	<u>675,000</u>
Total Business-Type Notes - ALL			<u>2,490,000</u>	<u>3,155,000</u>	<u>(2,490,000)</u>	<u>3,155,000</u>
Total Notes Payable			<u>\$20,396,344</u>	<u>\$ 15,584,200</u>	<u>\$(30,196,344)</u>	<u>\$ 5,784,200</u>

Temporary notes outstanding at year end were issued for library construction (\$103,000), police station (\$2,372,400), town creek culvert (\$53,800), and 29 Elm Street remediation (\$100,000).

## F. Long-Term Obligations

The following reflects the activity in the long-term liabilities for the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 1,143,593	\$ 14,412,000	\$ (267,719)	\$ 15,287,874	\$ 417,175
Unamortized bond premium	-	261,918	(10,519)	251,399	27,123
Capital lease obligations	27,194	681,019	(101,840)	606,373	92,873
Post-closure landfill monitoring	244,500	-	(20,000)	224,500	20,000
Compensated absences	873,326	218,332	(218,332)	873,326	218,332
Other postemployment benefits	2,629,439	698,355	(279,890)	3,047,904	-
Net pension liability	11,530,270	2,901,108	(1,742,387)	12,688,991	-
Total Governmental Activities	<u>\$ 16,448,322</u>	<u>\$ 19,172,732</u>	<u>\$ (2,640,687)</u>	<u>\$ 32,980,367</u>	<u>\$ 775,503</u>

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Business-type Activities: Water					
Bond and note indebtedness	\$ 10,375,691	\$ -	\$ (981,189)	\$ 9,394,502	\$ 530,361
Unamortized bond premium	-	642,854	(35,356)	607,498	90,347
Net pension liability	255,275	121,396	(45,158)	331,513	-
Total Business-type Activities: Water	10,630,966	764,250	(1,061,703)	10,333,513	620,708
Business-type Activities: Sewer					
Bond and note indebtedness	3,619,100	-	(398,000)	3,221,100	383,400
Compensated absences	65,423	-	-	65,423	16,356
Other postemployment benefits	112,054	24,056	(9,641)	126,469	-
Net pension liability	1,109,440	456,027	(188,018)	1,377,449	-
Total Business-type Activities: Sewer	4,906,017	480,083	(595,659)	4,790,441	399,756
Total Business-type Activities: All	\$ 15,536,983	\$ 1,244,333	\$ (1,657,362)	\$ 15,123,954	\$ 1,020,464

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”.

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

Description of Issue	Maturing Fiscal Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<b><u>Governmental Activities:</u></b>						
General Obligation Bonds	Varies	Varies	\$ 440,000	\$ 14,412,000	\$ (40,000)	\$ 14,812,000
MCWT Note	2020	Varies	343,031	-	(83,666)	259,365
Promissory Notes	2019	Varies	360,562	-	(144,053)	216,509
Total Governmental Bond and Note Indebtedness			1,143,593	14,412,000	(267,719)	15,287,874
<b><u>Business-type Activities - Water</u></b>						
General Obligation Refunding Bond	2031	3.5 - 5.0%	8,505,000	-	(874,000)	7,631,000
MCWT Note	2031	2.0%	1,773,226	-	(102,388)	1,670,838
MCWT Note	2033	2.0%	97,465	-	(4,801)	92,664
Total Water Bond and Note Indebtedness			10,375,691	-	(981,189)	9,394,502
<b><u>Business-type Activities - Sewer</u></b>						
General Obligation Bond	2031	3.0 - 4.0%	2,940,000	-	(200,000)	2,740,000
General Obligation Refunding Bonds	2020	3.5 - 4.0%	540,000	-	(153,000)	387,000
MCWT Note	2019	Varies	139,100	-	(45,000)	94,100
Total Sewer Bond and Note Indebtedness			3,619,100	-	(398,000)	3,221,100
Total Business-type Bond and Note Indebtedness			13,994,791	-	(1,379,189)	12,615,602
Total Long-Term Bond and Note Indebtedness - All			\$ 15,138,384	\$ 14,412,000	\$ (1,646,908)	\$ 27,903,476

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	
2018	\$ 417,175	(24,229)	\$ 392,946	\$ 358,777	\$ (7,724)	\$ 351,053	\$ 743,999
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
2023-2027	3,895,000	-	3,895,000	1,643,975	-	1,643,975	5,538,975
2028-2032	3,735,000	-	3,735,000	882,219	-	882,219	4,617,219
2033-2037	3,490,000	-	3,490,000	312,934	-	312,934	3,802,934
2038-2042	470,000	-	470,000	7,050	-	7,050	477,050
Total	<u>\$ 15,287,874</u>	<u>\$ (75,908)</u>	<u>\$ 15,211,966</u>	<u>\$ 5,122,107</u>	<u>\$ (15,659)</u>	<u>\$ 5,106,448</u>	<u>\$ 20,318,414</u>

<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2018	\$ 530,361	\$ -	\$ 530,361	\$ 268,946	\$ -	\$ 268,946	\$ 799,307
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
2023-2027	3,434,531	-	3,434,531	573,725	-	573,725	4,008,256
2028-2032	3,062,770	-	3,062,770	125,464	-	125,464	3,188,234
2033-2037	6,772	-	6,772	136	-	136	6,908
Total	<u>\$ 9,394,502</u>	<u>\$ -</u>	<u>\$ 9,394,502</u>	<u>\$ 1,839,635</u>	<u>\$ -</u>	<u>\$ 1,839,635</u>	<u>\$ 11,234,137</u>

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2018	\$ 383,400	\$ (12,320)	\$ 371,080	\$ 120,780	\$ (1,824)	\$ 118,956	\$ 490,036
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
2023-2027	980,000	-	980,000	249,000	-	249,000	1,229,000
2028-2032	760,000	-	760,000	60,800	-	60,800	820,800
Total	<u>\$ 3,221,100</u>	<u>\$ (24,716)</u>	<u>\$ 3,196,384</u>	<u>\$ 783,973</u>	<u>\$ (3,017)</u>	<u>\$ 780,956</u>	<u>\$ 3,977,340</u>

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2018	\$ 913,761	\$ (12,320)	\$ 901,441	\$ 389,726	\$ (1,824)	\$ 387,902	\$ 1,289,343
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
2023-2027	4,414,531	-	4,414,531	822,725	-	822,725	5,237,256
2028-2032	3,822,770	-	3,822,770	186,264	-	186,264	4,009,034
2033-2037	6,772	-	6,772	136	-	136	6,908
Total	<u>\$ 12,615,602</u>	<u>\$ (24,716)</u>	<u>\$ 12,590,886</u>	<u>\$ 2,623,608</u>	<u>\$ (3,017)</u>	<u>\$ 2,620,591</u>	<u>\$ 15,211,477</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 \$100,624 until maturity.

Authorized and Unissued Debt – At June 30, 2017, the Town carried authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Town Creek Culvert	\$ 152,292
Police Station Construction	300,000
Energy Conservation	68,585
Wastewater Treatment Facility	2,000,000
Salisbury Beach Boardwalk	156,594
Water DWS-07-09	62,838
Park Land Improvements	225,000
Well Construction	<u>250,000</u>
Total authorized and unissued	<u>\$ 3,215,309</u>

Overlapping Debt – The Town's proportionate share of debt of other governmental units which provide services within the Town's boundaries, and the 2017 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	\$10,295,000	35.80%	\$714,718

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>Asset:</u>	<u>Governmental Activities</u>
Police Interceptor	\$ 42,131
Fire Pumper Truck	498,799
DPW Dump Truck	182,220
Less: accumulated depreciation	<u>(46,690)</u>
Total	<u>\$ 676,460</u>

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

Fiscal Year Ended June 30,	Governmental Activities
2018	\$ 111,233
2019	96,298
2020	96,298
2021	96,297
2022	57,368
2023-2027	229,470
Total minimum lease payments	686,964
Less: amounts representing interest	(80,591)
Present value of minimum lease payments	<u>\$ 606,373</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, 2016 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, 2016, was as follows:

Retirees and beneficiaries currently receiving benefits	1,798
Active plan members	2,722
Inactive plan members	<u>1,149</u>
Total	<u>5,669</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 \$1,168,990 to the System in fiscal year 2017, which was the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 24.11% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$14,397,953 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. 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 3.737% at December 31, 2016, which was consistent with the proportion measured at January 1, 2016.

Pension Expense – The Town recognized \$1,662,992 in pension expense in the statement of activities in fiscal year 2017.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 630,703	\$ -
Differences between expected and actual experience	-	259,284
Changes of assumptions	610,199	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	574,635	436,691
Total	<u>\$ 1,815,537</u>	<u>\$ 695,975</u>

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

<u>Year ended June 30,</u>	
2018	\$ 282,491
2019	282,491
2020	296,176
2021	214,331
2022	44,073
Total	<u><u>\$ 1,119,562</u></u>

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

Actuarial cost method:	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:	7.75% 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 \$13,000 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>
Large cap equities	14.50%	7.50%
Small/mid cap equities	3.50%	7.75%
International equities	16.00%	7.83%
Emerging international equities	6.00%	9.61%
Core bonds	5.00%	4.00%
20+ year treasuries	5.00%	3.75%
TIPS	3.00%	3.75%
High-yield bonds	1.50%	5.75%
Bank loans	1.50%	6.00%
EMD (external)	1.00%	5.75%
EMD (local currency)	2.00%	6.50%
Private debt	4.00%	9.06%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge funds and portfolio completion	13.00%	6.48%

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed 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 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% decrease Discount Rate 6.75%	Current Discount Rate 7.75%	1% increase Discount Rate 8.75%
Net Pension Liability	\$ 17,604,264	\$ 14,397,953	\$ 12,025,840

## 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)

Plan Description – The Town administers a cost sharing single-employer defined benefit healthcare plan (the “Plan”). The Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B Section 20. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

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

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

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

Inactive employees or beneficiaries	
currently receiving benefits	68
Active employees	76
Total	<u>144</u>

Contributions – The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees contribute 50% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis plus additional contributions of \$50,000 annually. The costs of administering the Plan are paid by the Town.

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

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

*Rate of Return* - For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Asset Class	Target Allocation
Domestic Equity - Large Cap	0.00%
Domestic Equity - Small/Mid Cap	0.00%
Cash	100.00%
	<u>100.00%</u>

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

Total OPEB liability	\$ 9,480,499
Plan Fiduciary Net Position	<u>(162,024)</u>
Net OPEB liability	<u>\$ 9,318,475</u>

Plan Fiduciary Net Position as a percentage of total liability	1.70%
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*Investment Rate of Return* - The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Expected Investment Rate of Return
Domestic Equity - Large Cap	0.00%
Domestic Equity - Small/Mid Cap	0.00%
Cash	0.25%
Real rate of return	<u>0.25%</u>
Inflation assumption	3.75%
Total nominal rate of return	4.00%
Investment expense	<u>-</u>
Net investment return	<u>4.00%</u>

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

Investment rate of return	4%, net of OPEB plan investment expense, including inflation.
Single Equivalent Discount Rate	3.25%, net of OPEB plan investment expense including inflation.
Inflation	2.75% annually as of June 30, 2017 and for future periods.
Salary Increases	4.00% annually as of June 30, 2017 and for future periods.
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RP-2014 Blue Collar Mortality Table projected generationally with scale MP-2015.
Post-Retirement Mortality	RP-2014 Blue Collar Mortality Table projected generationally with scale MP-2015.
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale MP-2015.

*Changes in Assumptions: Effective June 30, 2017*- There were no changes in assumption as of June 30, 2017.

*Discount rate* - The discount rate used to measure the total OPEB liability was 4.0 percent. This was a blended rate of (1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments and are invested using a strategy to achieve that return and; (2) a yield rate for a 20 year, tax exempt general obligation municipal bond with an average rating of AA/Aa or higher when the conditions in (1) are not met.

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

	1% Decrease	Current	1% Increase
	3%	Discount Rate	5%
		4%	
Net OPEB Liability	\$ 10,962,376	\$ 9,318,475	\$ 8,008,692

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

	1% Decrease	Healthcare Trend Rate	1% Increase
	4%	5%	6%
Net OPEB Liability	\$ 7,742,618	\$ 9,318,475	\$ 11,391,825

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

Annual required contribution (ARC)	\$	704,134
Interest on net OPEB obligation		109,660
Adjustment to ARC		-
Amortization of actuarial (gains)/losses		(91,383)
Annual OPEB cost		722,411
Contributions made		(289,531)
Increase in net OPEB obligation		432,880
Net OPEB obligation at beginning of year		2,741,493
Net OPEB obligation at end of year	\$	3,174,373

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

Fiscal Year	Annual OPEB	Percentage	Net OPEB
Ending	Cost	of AOPEBC Contributed	Obligation
June 30, 2017	722,411	40.0%	\$3,174,373
June 30, 2016	688,582	37.7%	\$2,741,493
June 30, 2015	649,813	34.5%	\$2,312,516

The annual OPEB cost of \$722,411 was allocated to functional items as follows:

General Government	\$	121,166
Public Safety		69,909
Public Works		461,383
Health and Human Services		16,262
Culture and Recreation		17,114
Community Development		12,521
Sewer		24,056
	<u>\$</u>	<u>722,411</u>

*Funding Status and Funding Progress* – The funded status of the Plan at June 30, 2017, based on the most recent actuarial valuation performed as of June 30, 2016, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
\$ 162,024	\$ 10,203,178	\$ 10,041,154	1.6%	\$ 4,497,990	223.2%

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

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



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

Valuation date	June 30, 2017
Actuarial cost method	Individual Entry Age
Amortization method	Level Percent of Payroll
Remaining amortization period	30 years
Interest discount rate	4.00%
Inflation rate	2.75%
Healthcare/Medical cost trend rate	5.50%
Salaries	4.00%

#### **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, 2017, 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, 2017, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2017. 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; \$224,500 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, 2016. The restatement had the following effect on those fund balances:

	Capital Projects Fund	Nonmajor Funds
Original Fund Balance	\$ (1,114,206)	\$ 198,931
Adjustments	<u>1,114,206</u>	<u>(1,114,206)</u>
Restated Fund Balance	<u>\$ -</u>	<u>\$ ( 915,275)</u>

## H. Implementation of New GASB Pronouncements

### Current Year Implementation

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 74 has a material effect on the Town footnote disclosures.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 77 did not have a material effect on the Town.

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

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

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

#### *Future Year Implementation*

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

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

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

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

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

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

**TOWN OF SALISBURY, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2017**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY***(dollar amounts are in thousands)*

	Year Ended December 31,		
	2016	2015	2014
Town's proportion of the net pension liability	3.737%	3.549%	3.657%
Town's proportionate share of the net pension liability	\$ 14,398	\$ 12,895	\$ 12,408
Town's covered-employee payroll	\$ 4,885	\$ 4,756	\$ 4,576
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	294.7%	271.1%	271.2%
Plan fiduciary net position as a percentage of the total pension liability	51.12%	51.01%	52.27%

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

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

**SCHEDULE OF FUNDING PROGRESS**

**Other Postemployment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2016	\$ 162,024	\$ 10,203,178	\$ 10,041,154	1.6%	\$ 4,497,990	223.2%
6/30/2014	\$ 61,316	\$ 8,942,563	\$ 8,881,247	0.7%	\$ 3,633,465	244.4%
6/30/2012	\$ -	\$ 6,989,364	\$ 6,989,364	0.0%	\$ 3,628,492	192.6%
6/30/2009	\$ -	\$ 6,958,284	\$ 6,958,284	0.0%	\$ 3,700,000	188.1%

**SCHEDULE OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2017	\$ 722,411	\$ 289,531	40.1%
2016	\$ 688,582	\$ 259,604	37.7%
2015	\$ 649,813	\$ 224,412	34.5%
2014	\$ 617,903	\$ 260,561	42.2%
2013	\$ 570,029	\$ 134,066	23.5%
2012	\$ 538,139	\$ 131,148	24.4%
2011	\$ 472,158	\$ 240,223	50.9%

See accompanying independent auditors' report.

**TOWN OF SALISBURY, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - OPEB  
YEAR ENDED JUNE 30, 2017**

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

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 325,851
Interest	368,705
Changes in benefit terms	-
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	<u>(209,604)</u>
Net change in total OPEB liability	484,952
 Total OPEB liability - beginning of year	<u>8,995,547</u>
Total OPEB liability - end of year (a)	<u><u>\$ 9,480,499</u></u>
 Plan fiduciary net position:	
Contributions - employer	\$ 259,604
Net investment income	341
Benefit payments	(209,604)
Administrative expenses	-
Other	<u>-</u>
Net change in Plan fiduciary net position	50,341
 Plan fiduciary net position - beginning of year	<u>111,683</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 162,024</u></u>
 Net OPEB liability - end of year (a) - (b)	<u><u>\$ 9,318,475</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	1.70%
 Covered-employee payroll	\$ 4,497,990
 Net OPEB liability as a percentage of covered- employee payroll	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, 2017

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#### SCHEDULE OF CONTRIBUTIONS LAST 10 FISCAL YEARS

	<u>2017</u>
Actuarially-determined contribution	\$ 694,556
Contributions in relation to the actuarially-determined contribution	<u>(259,604)</u>
Contribution deficiency (excess)	<u>\$ 434,952</u>
Covered-employee payroll	\$ 4,497,990
Contribution as a percentage of covered-employee payroll	5.8%
Valuation Date	June 30, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Period	30 years
Asset Valuation Method	Market Value of Assets as of Reporting Date
Inflation	2.75%
Healthcare cost trend rates	5.50%
Salary increases	4.00%
Investment rate of return	4.00%

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

	<u>2017</u>
Annual money -weighted rate of return, net of investment expense	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, 2017**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
<b>Revenues:</b>						
Property Taxes	\$ 19,248,463	\$ 18,953,463	\$ 18,982,162	\$ -	\$ 18,982,162	\$ 28,699
Intergovernmental	1,151,219	1,151,219	1,223,444	-	1,223,444	72,225
Motor Vehicle and Other Excise	1,586,000	1,586,000	1,703,792	-	1,703,792	117,792
Departmental and Other Revenue	727,600	727,600	715,162	-	715,162	(12,438)
Licenses and Permits	365,000	365,000	451,139	-	451,139	86,139
Penalties and Interest	100,000	100,000	71,693	-	71,693	(28,307)
Fines and Forfeitures	76,000	76,000	183,169	-	183,169	107,169
Investment Income	30,600	30,600	42,585	-	42,585	11,985
Total Revenues	23,284,882	22,989,882	23,373,146	-	23,373,146	383,264
<b>Expenditures:</b>						
General government	1,792,443	2,077,851	1,944,071	87,464	2,031,535	46,316
Public safety	4,209,811	4,394,972	4,207,720	126,100	4,333,820	61,152
Education	12,114,108	12,114,108	12,106,476	-	12,106,476	7,632
Public works	1,404,065	1,458,065	1,393,914	45,000	1,438,914	19,151
Health and human services	517,737	518,744	475,007	-	475,007	43,737
Culture and recreation	432,421	432,421	420,582	-	420,582	11,839
Fringe and pension benefits	2,642,884	2,874,308	2,622,413	1,500	2,623,913	250,395
State and county tax assessments	134,540	134,540	128,903	-	128,903	5,637
Debt service	829,913	534,913	532,362	-	532,362	2,551
Total Expenditures	24,077,922	24,539,922	23,831,448	\$ 260,064	24,091,512	448,410
<b>Other Financing Sources (Uses):</b>						
Transfers in	619,643	629,643	629,643		629,643	-
Transfers out	-	(650,000)	(650,000)		(650,000)	-
Total Other Financing Sources (Uses)	619,643	(20,357)	(20,357)		(20,357)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(173,397)	(1,570,397)	\$ (478,659)		\$ (738,723)	\$ 831,674
<b>Other Budgetary Items:</b>						
Prior year encumbrances	295,897	295,897				
Prior year appropriation deficit	(25,845)	(25,845)				
Overlay deficit raised on tax recap	(115)	(115)				
Free cash transfers	-	1,227,000				
Overlay surplus	-	170,000				
Total Other Budgetary Items	269,937	1,666,937				
<b>Net Budget</b>	<b>\$ 96,540</b>	<b>\$ 96,540</b>				

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, 2017

### 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 2017, Town Meeting approved \$1.1 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, 2017 is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 23,373,146
Interest earned by stabilization funds	\$ -	\$ 2,852	2,852
Sixty days property tax receipts	(67,295)	-	(67,295)
Revenue on a GAAP basis	<u>\$ (67,295)</u>	<u>\$ 2,852</u>	<u>\$ 23,308,703</u>
Expenditures on a budgetary basis			\$ 23,831,448
OPEB contribution	\$ -	\$ 40,000	40,000
Capital project funding	-	(98,800)	(98,800)
Indirect cost allocations	-	(561,513)	(561,513)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (620,313)</u>	<u>\$ 23,211,135</u>
Transfers on a budgetary basis (net)			\$ (20,357)
Stabilization transfers	\$ -	\$ 100,000	100,000
OPEB contribution	-	40,000	40,000
Capital project funding	-	(98,800)	(98,800)
Indirect cost allocations	-	(561,513)	(561,513)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (520,313)</u>	<u>\$ (540,670)</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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 8, 2018.

**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  
March 8, 2018