

TOWN OF WINCHENDON, MASSACHUSETTS

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

TOWN OF WINCHENDON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Winchendon, 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 the fair presentation of these financial statements in accordance with the 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Town as of June 30, 2017, and the respective changes in financial position where applicable and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and the Town's contributions to pension plan, the schedule of the Commonwealth's share of net pension liability of the Massachusetts Teacher's Retirement System, the funding progress and contribution funding for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers this 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 a report dated November 9, 2017 on our consideration of the Town's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli, Clark and Associates

Roselli, Clark & Associates
Certified Public Accountants
November 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Winchendon, 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 Town continues to operate under a bill (the deficit legislation) approved by the Massachusetts State legislature in January, 2015. The bill provided the Town cash relief in the form of deficit borrowing. This was necessary as a result of the financial crisis the Town experienced in fiscal years 2013 through 2015 that caused aggregate deficits of over \$3.5 million. Under this legislation, the Town was allowed to borrow this amount. This is required to be paid back within 10 years, with early payoffs permissible based largely in part on the Town's operating results. The deficit legislation carries with it many covenants that the Town must adhere to. The Town began making payments on this obligation during fiscal year 2016 and as of June 30, 2017 the Town has paid down \$1.3 million of this issuance. In addition, positive operating results during 2017 will allow the Town to pay down an additional \$1.6 million during fiscal 2018. The Town expects to fully exhaust this obligation by the end of fiscal 2019.
- 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 almost \$8.8 million (*total net position*), a decrease of about \$2.7 million. Governmental activities decreased by approximately \$2.4 million and business-type activities decreased by approximately \$0.3 million. The decrease in governmental activities net position is primarily due to the recognition of OPEB and Pension costs.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of nearly \$7.3 million which is consistent with the prior year. General fund balance increased by over \$0.2 million to \$4.1 million which consisted of *unassigned fund balance* in the general fund, nearly \$2.6 million, \$0.9 million as restricted, \$0.5 million as committed, and almost \$0.2 million is assigned.
- The Town's total long-term debt decreased by \$1.2 million during the current fiscal year due to regular scheduled debt payments. In addition, the Town, under its special legislation notes, made paybacks of \$1.0 million.

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, similar to private-sector business. The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

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

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

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

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

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

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

Reconciliations are provided in the 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. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. 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 – The Town maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water, sewer and transfer station enterprises.

Internal service funds are used to report activities that service all other Town Departments. The Town used internal service funds to account for self-insured health insurance claims; *this fund was discontinued during fiscal 2015 but has been held open to run-off final claims*. Fiscal 2017 is the final year of the internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and transfer station enterprise funds, and the discontinued self-insured health claims fund.

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.

Discretely Presented Component Unit – The Winchendon Redevelopment Authority (“WRA”) is presented in a separate column to emphasize that it is legally separate from the Town, but is included because the Town is financially accountable for, and can impose its will on, the organization. The WRA is organized under Massachusetts state law with the authority to administer the Town’s redevelopment activities.

The WRA is managed by a five member board, of which four members are appointed by the Town Manager without restriction. The fifth member is appointed by the Governor of the Commonwealth of Massachusetts upon recommendation of the Town Manager.

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

Government-wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Assets</u>						
Current and other assets	\$ 11,779,993	\$ 11,155,122	\$ 6,744,989	\$ 7,267,934	\$ 18,524,982	\$ 18,423,056
Capital assets, net	24,498,570	24,799,600	17,805,741	18,255,933	42,304,311	43,055,533
Total assets	36,278,563	35,954,722	24,550,730	25,523,867	60,829,293	61,478,589
<u>Deferred outflows of resources</u>	3,607,506	1,634,029	65,153	29,512	3,672,659	1,663,541
<u>Liabilities</u>						
Long-term liabilities	45,284,945	41,017,542	8,126,106	8,692,854	53,411,051	49,710,396
Other liabilities	1,738,315	1,185,256	271,849	327,019	2,010,164	1,512,275
Total liabilities	47,023,260	42,202,798	8,397,955	9,019,873	55,421,215	51,222,671
<u>Deferred inflows of resources</u>	320,671	448,676	5,791	8,103	326,462	456,779
<u>Net Position</u>						
Net investment in capital assets	18,692,199	17,652,703	14,622,312	14,782,307	33,314,511	32,435,010
Restricted	1,971,992	2,607,839	-	-	1,971,992	2,607,839
Unrestricted	(28,122,053)	(25,323,265)	1,589,825	1,743,096	(26,532,228)	(23,580,169)
Total Net Position	\$ (7,457,862)	\$ (5,062,723)	\$ 16,212,137	\$ 16,525,403	\$ 8,754,275	\$ 11,462,680

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 resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by almost \$8.8 million (*total net position*).

The largest portion (approximately \$33.3 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$2.0 million) represents resources that are subject to external restrictions on how they may be used.

The remainder, unrestricted, represents a deficit balance primarily due to the recognition of the unfunded portion of other postemployment costs since the adoption of GASB 45 in 2009 of \$16.3 million and the recent implementation of GASB 68 related to pension which has a \$22.8 million impact on net position.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,287,765	\$ 1,484,611	\$ 2,004,814	\$ 1,974,954	\$ 3,292,579	\$ 3,459,565
Operating grants and contributions	17,502,520	16,897,275	179,517	245,518	17,682,037	17,142,793
Capital grants and contributions	1,497,884	1,489,093	-	-	1,497,884	1,489,093
General revenues:						
Property taxes	11,344,838	10,763,639	-	-	11,344,838	10,763,639
Intergovernmental	1,533,640	1,555,243	-	-	1,533,640	1,555,243
Other	1,596,534	1,568,481	-	-	1,596,534	1,568,481
Total Revenues	34,763,181	33,758,342	2,184,331	2,220,472	36,947,512	35,978,814
<u>Expenses</u>						
General government	2,238,103	2,156,116	-	-	2,238,103	2,156,116
Public safety	4,523,791	3,994,053	-	-	4,523,791	3,994,053
Education	26,726,245	25,988,251	-	-	26,726,245	25,988,251
Public works	1,825,255	1,514,048	-	-	1,825,255	1,514,048
Health and human services	876,010	857,138	-	-	876,010	857,138
Culture and recreation	406,078	385,180	-	-	406,078	385,180
Community development	72,417	86,116	-	-	72,417	86,116
Debt service	215,812	81,641	-	-	215,812	81,641
Water	-	-	1,132,662	1,119,728	1,132,662	1,119,728
Sewer	-	-	1,454,132	1,404,154	1,454,132	1,404,154
Transfer station	-	-	185,412	168,613	185,412	168,613
Total Expenses	36,883,711	35,062,543	2,772,206	2,692,495	39,655,917	37,755,038
Change in net position before transfers	(2,120,530)	(1,304,201)	(587,875)	(472,023)	(2,708,405)	(1,776,224)
Transfers	(274,609)	(234,488)	274,609	234,488	-	-
Change in net position	(2,395,139)	(1,538,689)	(313,266)	(237,535)	(2,708,405)	(1,776,224)
Net position, beginning of year	(5,062,723)	(3,524,034)	16,525,403	16,762,938	11,462,680	13,238,904
Net position, end of year	<u>\$ (7,457,862)</u>	<u>\$ (5,062,723)</u>	<u>\$ 16,212,137</u>	<u>\$ 16,525,403</u>	<u>\$ 8,754,275</u>	<u>\$ 11,462,680</u>

Governmental Activities – The reduction in net position in governmental activities was due primarily to the recognition of OPEB and Pension costs offset by favorable operating results.

During fiscal year 2017, property taxes made up approximately 32.6% of total revenues, consistent with the prior year amount of 31.9% as the Town recognized a statutory increase of 2.5% plus new growth. Operating grants and contributions represented approximately 50.3% of total revenues in current year which is consistent with prior year amount of 50.1. No other revenues were greater than 10% of total revenues in fiscal years 2017 or 2016.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 72.5% of total fiscal year expenses, which is consistent with the prior year amount of 74.1%. Public Safety expenses were consistent at 12.3% and

11.4% respectively for 2017 and 2016. No other expense categories were greater than 10% of total expenses in either 2017 or 2016.

Business-Type Activities – Major revenue sources consist of revenue from user charges, which were consistent with the prior year.

Water, sewer and transfer station expenses represented 40.9%, 52.5% and 6.7% of total fiscal year 2017 business-type activities expenses, respectively; consistent with 41.6%, 52.2% and 6.3% of total fiscal year 2016 business-type activities expenses, respectively.

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 reflected a combined ending fund balance of over \$7.3 million which is consistent with prior year balance of over \$7.0 million as the Town continues to spend conservatively.

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 almost \$2.6 million, while total fund balance reached over \$4.2 million.

The capital projects major fund had a restricted fund balance of almost \$0.9 million and the aggregate nonmajor funds had a restricted fund balance of \$1.9 million and nonspendable balances of \$0.3 million.

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 June 30, 2017, net position of the water and sewer enterprise funds were approximately \$6.0 million and \$10.4 million, respectively and the transfer station enterprise fund had a deficit fund balance over \$0.2 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than 1%. 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 totaled approximately \$24.5 million and \$17.8 million, respectively. Governmental net capital assets decreased by \$0.3 million as depreciation exceeded new additions. Business-type net capital assets decreased by over \$0.5 million as fiscal year 2017 depreciation expense exceeded additions.

The Town has undergone significant capital improvements over the past several years, particularly to its water infrastructure. A significant portion of these improvements were funded with reimbursements from grants provided by the federal government and the Commonwealth of Massachusetts. In addition, more recently, the Town constructed a new police station and performed highway road work.

Additional information on the Town capital assets can be found in Note III. Subsection C of this report.

Long-term Debt – At June 30, 2017, the Town had total debt outstanding of over \$11.0 million, which represents a decrease of approximately \$1.2 million from the prior year. This was a result of regular paybacks of \$1.2 million. At June 30, 2017, the Town had almost \$3.6 million in general obligation bonds of governmental activities and over \$7.4 million in general obligation bonds and notes of business-type activities.

The Town will receive reimbursements for a portion of any principal payback of debt issued through agreements with the Massachusetts Clean Water Trust MCWT. The Town expects to receive approximately \$1.5 million of principal and approximately \$0.5 million of interest in aggregate over the next eleven years.

State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2017 was approximately \$33.1 million based on an equalized valuation of approximately \$662 million.

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 Notes III. Subsections E. and F. of this report.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2017 represent approximately 89.9% of the entire levy. The Town relies to a lesser, but still moderate, extent on its commercial, industrial and personnel 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’s tax levy.
- The Town relies heavily on intergovernmental receipts from the Commonwealth of Massachusetts. \$13.9 million is anticipated for fiscal 2018. This represents over 50% of the Town’s operating budget in the general fund.
- The Town has yet to set a tax rate. This is expected to be accomplished by December 15, 2017.
- The Town is required to pay-back its deficit loan over 10 years with provisions for early pay-off available. In addition the Town is required to establish a revenue reserve fund set at a percentage of the prior year budget for extraordinary and unforeseen items. These mandates per the deficit legislation will add a burden of almost \$400,000 to the annual budget.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Manager, Town Hall, 109 Front Street, Winchendon, Massachusetts 01475.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Winchendon Redevelopment Authority
Assets				
Cash and cash equivalents	\$ 6,647,596	\$ 1,932,284	\$ 8,579,880	\$ 24,638
Investments	2,178,478	-	2,178,478	-
Receivables, net:				
Property taxes	2,211,387	-	2,211,387	-
Motor vehicle excise	282,821	-	282,821	-
User fees	-	621,768	621,768	-
Betterments	-	2,765,823	2,765,823	-
Departmental and other	200,411	-	200,411	35,000
Intergovernmental	259,300	1,425,114	1,684,414	-
Assets held for development	-	-	-	968,256
Capital assets not being depreciated	2,072,561	26,735	2,099,296	-
Capital assets, net of accumulated depreciation	22,426,009	17,779,006	40,205,015	-
Total Assets	36,278,563	24,550,730	60,829,293	1,027,894
Deferred Outflows of Resources:				
Pension related items	3,607,506	65,153	3,672,659	-
Total Deferred Outflows of Resources	3,607,506	65,153	3,672,659	-
Liabilities:				
Warrants and accounts payable	1,207,283	131,849	1,339,132	-
Other liabilities	35,032	-	35,032	-
Bond anticipation notes payable	496,000	140,000	636,000	-
Noncurrent liabilities:				
Due within one year	2,687,440	1,020,032	3,707,472	-
Due in more than one year	42,597,505	7,106,074	49,703,579	-
Total Liabilities	47,023,260	8,397,955	55,421,215	-
Deferred Inflows of Resources:				
Pension related items	320,671	5,791	326,462	-
Total Deferred Inflows of Resources	320,671	5,791	326,462	-
Net Position				
Net Investment in capital assets	18,692,199	14,622,312	33,314,511	-
Restricted for:				
Expendable permanent funds	336,609	-	336,609	-
Capital projects	571,442	-	571,442	-
Federal and State grants	459,908	-	459,908	-
Gifts and donations	604,033	-	604,033	-
Other purposes	-	-	-	1,027,894
Unrestricted	(28,122,053)	1,589,825	(26,532,228)	-
Total Net Position	\$ (7,457,862)	\$ 16,212,137	\$ 8,754,275	\$ 1,027,894

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Primary Government Total	Component Unit Winchendon Redevelopment Authority
<u>Primary Government</u>								
Governmental activities:								
General government	\$ 2,238,103	\$ 306,754	\$ 31,632	\$ 119,211	\$ (1,780,506)		\$ (1,780,506)	
Public safety	4,523,791	623,339	246,619	51,098	(3,602,735)		(3,602,735)	
Education	26,726,245	278,320	16,729,042	304,374	(9,414,509)		(9,414,509)	
Public works	1,825,255	11,022	-	777,519	(1,036,714)		(1,036,714)	
Health and human services	876,010	62,418	464,514	58,827	(290,251)		(290,251)	
Culture and recreation	406,078	5,912	30,713	114,438	(255,015)		(255,015)	
Community development	72,417	-	-	72,417	-		-	
Interest expense	215,812	-	-	-	(215,812)		(215,812)	
Total governmental activities	36,883,711	1,287,765	17,502,520	1,497,884	(16,595,542)		(16,595,542)	
<u>Business-type activities:</u>								
Water	1,132,662	930,665	25,603	-		\$ (176,394)	(176,394)	
Sewer	1,454,132	924,188	153,914	-		(376,030)	(376,030)	
Transfer station	185,412	149,961	-	-		(35,451)	(35,451)	
Total business-type activities	2,772,206	2,004,814	179,517	-		(587,875)	(587,875)	
Total Primary Government	\$ 39,655,917	\$ 3,292,579	\$ 17,682,037	\$ 1,497,884	(16,595,542)	(587,875)	(17,183,417)	
Component unit:								
Winchendon Redevelopment Authority	\$ 11,528	\$ -	\$ 122,678	\$ -				\$ 111,150
<u>General Revenues:</u>								
					11,344,838	-	11,344,838	-
					1,240,210	-	1,240,210	-
					1,533,640	-	1,533,640	-
					284,210	-	284,210	-
					47,089	-	47,089	109
					25,025	-	25,025	-
					(274,609)	274,609	-	-
Total general revenues and transfers					14,200,403	274,609	14,475,012	109
Change in Net Position					(2,395,139)	(313,266)	(2,708,405)	111,259
<u>Net Position:</u>								
Beginning of year					(5,062,723)	16,525,403	11,462,680	916,635
End of year					\$ (7,457,862)	\$ 16,212,137	\$ 8,754,275	\$ 1,027,894

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,166,338	\$ 1,617,046	\$ 1,864,212	\$ 6,647,596
Investments	1,753,354	-	425,124	2,178,478
Receivables, net of allowance for uncollectibles:				
Property taxes	2,211,387	-	-	2,211,387
Motor vehicle excise	282,821	-	-	282,821
Departmental and other	183,246	-	17,165	200,411
Intergovernmental	60,887	-	198,413	259,300
Total Assets	<u>7,658,033</u>	<u>1,617,046</u>	<u>2,504,914</u>	<u>11,779,993</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 7,658,033</u></u>	<u><u>\$ 1,617,046</u></u>	<u><u>\$ 2,504,914</u></u>	<u><u>\$ 11,779,993</u></u>
Liabilities				
Warrants and accounts payable	\$ 713,549	\$ 176,893	\$ 316,841	\$ 1,207,283
Other liabilities	35,032	-	-	35,032
Bond anticipation notes payable	-	496,000	-	496,000
Total Liabilities	<u>748,581</u>	<u>672,893</u>	<u>316,841</u>	<u>1,738,315</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	2,211,387	-	-	2,211,387
Unavailable revenue - excise taxes	282,821	-	-	282,821
Unavailable revenue - other	244,133	-	17,165	261,298
Total Deferred Inflows of Resources	<u>2,738,341</u>	<u>-</u>	<u>17,165</u>	<u>2,755,506</u>
Fund Balances				
Nonspendable	-	-	336,609	336,609
Restricted	896,159	944,153	1,942,595	3,782,907
Committed	535,029	-	-	535,029
Assigned	141,903	-	-	141,903
Unassigned:				
General stabilization	1,089,048	-	-	1,089,048
Other	1,508,972	-	(108,296)	1,400,676
Total Fund Balances	<u>4,171,111</u>	<u>944,153</u>	<u>2,170,908</u>	<u>7,286,172</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 7,658,033</u></u>	<u><u>\$ 1,617,046</u></u>	<u><u>\$ 2,504,914</u></u>	<u><u>\$ 11,779,993</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 7,286,172
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,498,570
Other long-term assets are unavailable to pay for current-period expenditures	2,755,506
Differences arising due to the accounting related to net pension liability and related deferred inflows and outflows	3,286,835
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(378,000)
Bonds and notes payable	(5,806,371)
Compensated absences	(729,383)
Net pension liability	(22,387,731)
Other postemployment benefits	(15,983,460)
Net Position of Governmental Activities	<u><u>\$ (7,457,862)</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 11,409,862	\$ -	\$ -	\$ 11,409,862
Intergovernmental	16,810,758	-	2,928,248	19,739,006
Motor vehicle and other excises	1,241,891	-	-	1,241,891
Departmental and other revenue	776,321	-	305,999	1,082,320
Licenses and permits	190,538	-	-	190,538
Penalties and interest on taxes	284,210	-	-	284,210
Fines and forfeitures	19,589	-	-	19,589
Investment income	28,618	-	18,471	47,089
Contributions and donations	-	-	813,692	813,692
Total Revenues	<u>30,761,787</u>	<u>-</u>	<u>4,066,410</u>	<u>34,828,197</u>
Expenditures:				
Current:				
General government	1,365,997	26,500	202,524	1,595,021
Public safety	2,529,164	364,776	299,354	3,193,294
Education	18,049,963	-	2,445,966	20,495,929
Public works	987,988	-	524,851	1,512,839
Health and human services	616,010	-	77,387	693,397
Culture and recreation	156,627	162,762	85,080	404,469
Community development	-	-	72,417	72,417
Pension and fringe benefits	3,510,160	-	-	3,510,160
State and county assessments	1,411,718	-	-	1,411,718
Debt service:				
Principal	1,311,562	-	-	1,311,562
Interest	215,812	-	-	215,812
Total Expenditures	<u>30,155,001</u>	<u>554,038</u>	<u>3,707,579</u>	<u>34,416,618</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>606,786</u>	<u>(554,038)</u>	<u>358,831</u>	<u>411,579</u>
Other Financing Sources (Uses)				
Transfers in	123,327	1,213,883	5,864	1,343,074
Transfers out	(523,473)	-	(981,910)	(1,505,383)
Total Other Financing (Uses) Sources	<u>(400,146)</u>	<u>1,213,883</u>	<u>(976,046)</u>	<u>(162,309)</u>
Net Change in Fund Balances	206,640	659,845	(617,215)	249,270
Fund Balances - Beginning of year	3,964,471	284,308	2,788,123	7,036,902
Fund Balances - End of year	<u><u>\$ 4,171,111</u></u>	<u><u>\$ 944,153</u></u>	<u><u>\$ 2,170,908</u></u>	<u><u>\$ 7,286,172</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 249,270**

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	1,412,726	
Depreciation expense	(1,713,756)	

Net effect of reporting capital assets		(301,030)
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Governmental activities include governmental proprietary funds while the government government funds do not. This is the impact of the internal service fund		(87,275)
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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 unavailable and amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Repayments of debt	1,311,562	

Net effect of reporting long-term debt		1,311,562
--	--	-----------

Revenues in the Statement of Activities that do not provide current financial resources are not available in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the net difference between years.		(90,185)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Landfill monitoring	27,000	
Compensated absences	4,952	
Pension expenses	(1,363,635)	
Other postemployment benefits	(2,145,798)	

Net effect of reporting long-term liabilities		(3,477,481)
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Change in Net Position of Governmental Activities		<u>\$ (2,395,139)</u>
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See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities				Governmental Activities
					Internal Service Fund - Health Claims
	Water	Sewer	Transfer Station	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 451,286	\$ 1,480,998	\$ -	\$ 1,932,284	\$ -
Investments	-	-	-	-	-
Receivables (net):					
User charges	276,253	345,515	-	621,768	-
Betterments	-	-	-	-	-
Intergovernmental	49,688	178,847	-	228,535	-
Total current assets	<u>777,227</u>	<u>2,005,360</u>	<u>-</u>	<u>2,782,587</u>	<u>-</u>
Noncurrent assets:					
Receivables (net):					
Betterments	-	2,765,823	-	2,765,823	-
Intergovernmental	107,839	1,088,740	-	1,196,579	-
Land	16,385	10,350	-	26,735	-
Capital assets (net of depreciation)	<u>7,616,007</u>	<u>10,162,999</u>	<u>-</u>	<u>17,779,006</u>	<u>-</u>
Total noncurrent assets	<u>7,740,231</u>	<u>14,027,912</u>	<u>-</u>	<u>21,768,143</u>	<u>-</u>
Total Assets	<u>8,517,458</u>	<u>16,033,272</u>	<u>-</u>	<u>24,550,730</u>	<u>-</u>
Deferred Outflows of Resources:					
Pension related items	<u>8,080</u>	<u>42,566</u>	<u>14,507</u>	<u>65,153</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>8,080</u>	<u>42,566</u>	<u>14,507</u>	<u>65,153</u>	<u>-</u>
Liabilities					
Current liabilities:					
Warrants and accounts payable	52,995	64,686	14,168	131,849	-
Capital lease payable	-	14,549	-	14,549	-
Bonds anticipation notes payable	140,000	-	-	140,000	-
Bonds and notes payable	<u>236,679</u>	<u>739,840</u>	<u>28,964</u>	<u>1,005,483</u>	<u>-</u>
Total current liabilities	<u>429,674</u>	<u>819,075</u>	<u>43,132</u>	<u>1,291,881</u>	<u>-</u>
Noncurrent liabilities:					
Capital lease payable	-	15,277	-	15,277	-
Other postemployment benefits	35,833	188,538	64,247	288,618	-
Net pension liability	50,143	264,160	90,029	404,332	-
Bonds and notes payable	<u>2,020,596</u>	<u>4,377,251</u>	<u>-</u>	<u>6,397,847</u>	<u>-</u>
Total noncurrent liabilities	<u>2,106,572</u>	<u>4,845,226</u>	<u>154,276</u>	<u>7,106,074</u>	<u>-</u>
Total Liabilities	<u>2,536,246</u>	<u>5,664,301</u>	<u>197,408</u>	<u>8,397,955</u>	<u>-</u>
Deferred Inflows of Resources:					
Pension related items	<u>718</u>	<u>3,784</u>	<u>1,289</u>	<u>5,791</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>718</u>	<u>3,784</u>	<u>1,289</u>	<u>5,791</u>	<u>-</u>
Net Position					
Net Investment in capital assets	5,532,644	9,089,668	-	14,622,312	-
Unrestricted	<u>455,930</u>	<u>1,318,085</u>	<u>(184,190)</u>	<u>1,589,825</u>	<u>-</u>
Total Net Position	<u>\$ 5,988,574</u>	<u>\$ 10,407,753</u>	<u>\$ (184,190)</u>	<u>\$ 16,212,137</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Operating Revenues:					
Charges for services	\$ 889,430	\$ 869,994	\$ 143,361	\$ 1,902,785	\$ -
Other	41,235	54,194	6,600	102,029	25,025
Total Operating Revenues	<u>930,665</u>	<u>924,188</u>	<u>149,961</u>	<u>2,004,814</u>	<u>25,025</u>
Operating Expenses:					
Operating costs	810,748	917,267	185,412	1,913,427	-
Depreciation	246,062	315,180	-	561,242	-
Total Operating Expenses	<u>1,056,810</u>	<u>1,232,447</u>	<u>185,412</u>	<u>2,474,669</u>	<u>-</u>
Operating Income (Loss)	<u>(126,145)</u>	<u>(308,259)</u>	<u>(35,451)</u>	<u>(469,855)</u>	<u>25,025</u>
Nonoperating Revenues (Expenses):					
Intergovernmental	25,603	153,914	-	179,517	-
Interest expense	(75,852)	(221,685)	-	(297,537)	-
Total Nonoperating Revenues (Expenses)	<u>(50,249)</u>	<u>(67,771)</u>	<u>-</u>	<u>(118,020)</u>	<u>-</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(176,394)</u>	<u>(376,030)</u>	<u>(35,451)</u>	<u>(587,875)</u>	<u>25,025</u>
Transfers					
Transfers (net)	<u>61,075</u>	<u>213,534</u>	<u>-</u>	<u>274,609</u>	<u>(112,300)</u>
Change in Net Position	<u>(115,319)</u>	<u>(162,496)</u>	<u>(35,451)</u>	<u>(313,266)</u>	<u>(87,275)</u>
Total Net Position - Beginning of Year	<u>6,103,893</u>	<u>10,570,249</u>	<u>(148,739)</u>	<u>16,525,403</u>	<u>87,275</u>
Total Net Position - End of Year	<u>\$ 5,988,574</u>	<u>\$ 10,407,753</u>	<u>\$ (184,190)</u>	<u>\$ 16,212,137</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Cash Flows from Operating Activities:					
Receipts from users	\$ 1,041,410	\$ 908,221	\$ 143,361	\$ 2,092,992	\$ 82,357
Other income	41,235	54,194	6,600	102,029	25,025
Payments to employees	(172,821)	(194,328)	(44,731)	(411,880)	-
Payments to vendors	(609,708)	(648,129)	(125,633)	(1,383,470)	(11,500)
Net Cash Provided by (Used in) Operating Activities	300,116	119,958	(20,403)	399,671	95,882
Cash Flows from Noncapital Financing Activities:					
Transfers, net	61,075	213,534	-	274,609	(112,300)
Net Cash Provided by (Used in) Noncapital Financing Activities	61,075	213,534	-	274,609	(112,300)
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital leases		45,867		45,867	
Proceeds from the issuance of bonds and notes	140,000			140,000	
Acquisition and construction of capital assets	(65,728)	(45,322)		(111,050)	
Proceeds from capital betterments	-	437,717	-	437,717	-
Proceeds from capital grants	73,227	326,151	-	399,378	-
Principal payments on bonds and notes	(230,849)	(732,967)	-	(963,816)	-
Interest expense	(75,852)	(221,685)	-	(297,537)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(159,202)	(190,239)	-	(349,441)	-
Net Change in Cash and Cash Equivalents	201,989	143,253	(20,403)	324,839	(16,418)
Cash and Cash Equivalents					
Beginning of the year	249,297	1,337,745	20,403	1,607,445	16,418
End of the year	<u>\$ 451,286</u>	<u>\$ 1,480,998</u>	<u>\$ -</u>	<u>\$ 1,932,284</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (126,145)	\$ (308,259)	\$ (35,451)	\$ (469,855)	\$ 25,025
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	246,062	315,180	-	561,242	-
Changes in assets, deferred outflows, liabilities and deferred inflows					
Receivables (net)	151,980	38,227	-	190,207	82,357
Deferred outflows of resources	(4,420)	(23,285)	(7,936)	(35,641)	
Deferred inflows of resources	(287)	(1,510)	(515)	(2,312)	
Liabilities (net)	32,926	99,605	23,499	156,030	(11,500)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 300,116</u>	<u>\$ 119,958</u>	<u>\$ (20,403)</u>	<u>\$ 399,671</u>	<u>\$ 95,882</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2017

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 570,663
Investments	447,026	-
Total Assets	447,026	570,663
Liabilities		
Agency liabilities	-	570,663
Total Liabilities	-	570,663
Net Position		
Held in trust for other purposes	447,026	-
Total Net Position	\$ 447,026	\$ -

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income	\$ 322
Contributions	<u>11,068</u>
Total Additions	<u>11,390</u>
Deductions:	
Education - scholarships	10,650
Health and human services - public assistance	<u>2,555</u>
Total Deductions	<u>13,205</u>
Change in Net Position	(1,815)
Total Net Position - Beginning	<u>448,841</u>
Total Net Position - Ending	<u><u>\$ 447,026</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

I. Summary of Significant Accounting Policies

The accompanying 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, which is approximately forty-four square miles, is located in Worcester County and is bordered by the State of New Hampshire on its northern side. The Town was incorporated as a town in 1764. An elected five-member Board of Selectmen governs the Town and an appointed Town Manager oversees the Town's daily executive and administrative duties. Selectmen serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water, sewer and solid waste services, street maintenance, parks and recreational facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria including: being financially accountable, and able to impose its will; appointing a voting majority of the component units' governing body and if the potential for the component unit to provide specific financial benefits or to impose specific financial burdens on the Town.

Discretely Presented Component Unit – The Winchendon Redevelopment Authority ("WRA") is presented in a separate column to emphasize that it is legally separate from the Town, but is included because the Town is financially accountable for, and can impose its will on, the organization. The WRA is organized under Massachusetts state law with the authority to administer the Town's redevelopment activities. The WRA is managed by a five member board, of which four members are appointed by the Town Manager without restriction. The fifth member is appointed by the Governor of the Commonwealth of Massachusetts upon recommendation of the Town Manager. A stand-alone report has not been issued for the WRA as of and for the fiscal year ended June 30, 2017.

B. Deficits/Deficit Legislation

The Town experienced significant deficits from fiscal year 2013 to 2015. Appropriation deficits were nearly \$1.2 million; health insurance claim deficits were over \$1.8 million; grant and other special revenue deficits were nearly \$0.3 million and the general fund was in a cash overdraft position of nearly \$1.9 million. The severity of these issues caused significant cash flow stress that eventually led to the Town being unable to meet its weekly payroll and vendor obligations which necessitated a \$2 million advance of its fiscal 2015 state aid in order to sustain operations.

In addition, the Town did not have sufficient resources in 2015 to fund the deficits that existed at the close of fiscal year 2014 as is required by law. This imbalance in the budget precluded the

Town from setting a tax rate for fiscal 2015 and thus created more stress on the Town's already depleted cash flow.

In order to address this, the Town requested its voters to pass an override to fund the fiscal 2014 deficits. The article failed; however the voters authorized the Town to petition the legislation to pass a bill that would allow the Town to issue deficit bonds (deficit legislation).

Subsequently, on January 6, 2015, the Massachusetts State Legislature established *Chapter 448 of the Acts of 2014; An Act Relative to The Financial Condition of The Town of Winchendon*.

The Act allows the Town cash relief in the form of deficit borrowing for an amount up to \$5,700,000 and an additional \$300,000 at the Department of Revenue, Director of Account's discretion. In response to this, on March 1, 2015 the Town issued notes in the amount of \$3,000,000 and thus was able to balance its budget and set its tax rate for fiscal year 2015. In addition, the Town discontinued the operations of its health insurance trust fund and transitioned into a premium based health insurance program.

Fiscal 2015 operating activity continued to result in deficits; more specifically, the insurance appropriation account experienced a deficit of \$128,587 and the Town's discontinued health insurance trust account ended the year with a statutory deficit of \$532,871, partly due to the run-off of the fund. This led to the Town extending its borrowing under the deficit legislation to fund the health insurance trust deficit; and further, to use available amounts from general stabilization to fund the insurance appropriation deficit.

The deficit notes are required to be paid back within 10 years, with early payoffs permissible. The deficit legislation carries with it many covenants that the Town must adhere to including timely audits, balance sheets, quarterly oversight and the creation of an annual reserve for extraordinary and unforeseen expenditures.

C. 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. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

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

- 1) The total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type, and

- 2) The total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 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.

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

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

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

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

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

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.

Town Capital Projects Fund – is used to account for all financial resources that are restricted, committed or assigned for the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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:

The *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.

The *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 Town reports the following major enterprise proprietary funds:

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

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

Transfer Station Enterprise Fund – accounts for user charges collected to finance costs associated with operating facilities for the disposal of household waste and recycling.

Additionally, the following governmental, proprietary fund type is reported:

Internal Service Fund – is used to account for the Town’s self-insured health insurance related activities. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements. This activity was discontinued during the prior year.

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

The government reports the following fiduciary funds:

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

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

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

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

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

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

Motor vehicle excise taxes are primarily assessed in January every year and are due 30 days thereafter; subsequent vehicle transaction and catch-up billings are assessed periodically throughout the remaining calendar year. Excise tax billings are based on motor vehicle records and amounts as determined by the Commonwealth of Massachusetts; the timing of the Town's billings is additionally predicated on when such records are received from the Commonwealth.

User fees consist of water and sewer fees. Water and sewer user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date.

Real estate taxes, water and sewer user fees, and special assessments/betterments are secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old, if material. The allowance for uncollectible balances for other receivables is estimated based on historical trends and specific account analysis.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to

vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

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

All purchases and construction costs in excess of \$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:

Infrastructure	40 - 50 years
Buildings and improvements	40 years
Equipment, furniture, fixtures and vehicles	5 - 10 years

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

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

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

Investment Income – 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 voluntarily assigned to the general fund except for the Health Claims Internal Service Fund that retains any interest earned.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements 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 only has one type of item that qualifies for reporting as a deferred outflow reported on the government-wide statement of net position that relates to outflows from changes in the net pension liability. These outflows 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. The first arises under a modified accrual basis of accounting and, accordingly, 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. The second type of item that qualifies for reporting as a deferred outflow is reported on the government-wide statement of net position. This relates to outflows from changes in the net pension liability which 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 and outstanding debt related to future state reimbursements for capital construction costs are not considered to be capital related debt.

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

Nonexpendable Permanent Funds – represent the endowment portion of donor restricted trusts that support governmental programs.

Expendable Permanent Funds – represent amounts held in trust whereby expenditures are subject to various trust agreements.

Federal and State Grants – represent amounts that have restrictions placed on them from federal and state granting agencies.

Other Purposes – represent amounts 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. The Town’s non-spendable fund balance reported in the Nonmajor governmental funds consists of the corpus of endowments for the cemetery, the library and various other purposes.

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

Committed – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Articles. 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 Articles) 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 authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

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

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

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,089,048 at June 30, 2017, and is reported as unassigned fund balance in the General Fund.

The Town maintains an infrastructure/landfill stabilization which may be used for any municipal infrastructure purpose upon two-thirds vote of the Town Meeting. The balance of the fund totals \$664,306 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 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 \$141,903 of encumbrances from Town Meeting article votes in the general fund as assigned. The Town does not report encumbrances in any other fund.

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

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable permanent funds	\$ -	\$ -	\$ 336,609	\$ 336,609
Restricted:				
General government	-	-	464,438	464,438
Public safety	-	-	76,496	76,496
Education	-	-	621,535	621,535
Public works	-	-	146,832	146,832
Health and human services	-	-	337,163	337,163
Culture and recreation	-	-	220,214	220,214
Infrastructure improvements	664,306	-	-	664,306
Capital outlay	-	944,153	-	944,153
Debt service	77,629	-	-	77,629
Supplemental reserve fund	154,224	-	-	154,224
Other purposes	-	-	75,917	75,917
Committed:				
Education	55,329	-	-	55,329
Debt service	479,700	-	-	479,700
Assigned:				
Purchase orders	141,903	-	-	141,903
Unassigned:				
General stabilization	1,089,048	-	-	1,089,048
Other	1,508,972	-	(108,296)	1,400,676
	<u>\$ 4,171,111</u>	<u>\$ 944,153</u>	<u>\$ 2,170,908</u>	<u>\$ 7,286,172</u>

E. 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.

F. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits totaling \$108,296 in several nonmajor governmental funds. The deficits are expected to be funded from future grant reimbursements and available funds during fiscal year 2018.

II. Detailed Notes to All Funds

A. Deposits and Investments

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool (the 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.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (the MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town'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 \$11,776,047 and the banks' balances totaled \$11,919,199. Of the amount held by banks \$4,263,683, was covered by either federal depository insurance or by the depositors' insurance fund and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the Town's investments, \$1,402,809 in U.S. government obligations; \$489,707 of corporate fixed income obligations, \$835,256 in marketable certificates of deposit; \$205,199 in money market mutual funds; and \$238,560 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. Credit risk is managed under the auspices of a formal policy drafted by the Treasurer and approved by the Board of Selectmen.

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

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

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

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2017:

		Fair Value Measurements Using		
	6/30/17	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. treasury bonds	\$ 333,424	\$ 333,424	\$ -	\$ -
U.S. government agency bonds	1,069,385	1,069,385	-	-
Certificates of deposit	835,256	835,256	-	-
Corporate bonds	489,707	489,707	-	-
Total debt securities	2,727,772	2,727,772	-	-
Equity securities:				
Common stock	238,560	238,560	-	-
Total equity securities	238,560	238,560	-	-
Total investments by fair value level	<u>\$ 2,966,332</u>	<u>\$ 2,966,332</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost				
MMDT	19,007			
Total investments	<u>\$ 2,985,339</u>			

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

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.

At June 30, 2017, the Town's investments had the following maturities:

Investment Type	6/30/17	Maturities in Years		
		Less than 1	1 - 5	More than 5
U.S. Government obligations	\$ 1,402,809	\$ -	\$ 1,402,809	\$ -
Corporate bonds	489,707	-	489,707	-
Certificates of deposit	835,256	340,827	494,429	-
MMDT	19,007	19,007	-	-
Total investments with maturities	<u>\$ 2,746,779</u>	<u>\$ 359,834</u>	<u>\$ 2,386,945</u>	<u>\$ -</u>

Other investments:

Equities	<u>238,560</u>
Total Town investments	<u>\$ 2,985,339</u>

Concentration of Credit Risk – The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total cash, cash equivalents and investments.

Credit Risk – Statutes require the Town Treasurer to invest Town government funds in bank deposit, money market, certificate of deposit, repurchase agreements and the State Treasurer's investment pool accounts. Relative to trust funds, certain additional, and in some instances statutorily, pre-approved investment instruments such as corporate bonds, stock equity, mutual funds, and other pooled investment funds may be invested in. 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 U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

At June 30, 2017, the credit quality ratings of investments were as follows"

	Corporate Fixed Income Securities	U.S. Government Agencies & Treasuries	Certificates Of Deposit	State Investment Pool	Total
Aaa	\$ -	\$ 1,402,809	\$ -	\$ -	\$ 1,402,809
A1	99,905	-	-	-	99,905
A3	199,724	-	-	-	199,724
Baa1	190,078	-	-	-	190,078
Not Rated	-	-	835,256	19,007	854,263
Total - All	<u>\$ 489,707</u>	<u>\$ 1,402,809</u>	<u>\$ 835,256</u>	<u>\$ 19,007</u>	<u>\$ 2,746,779</u>

WRA Deposits – State and local statutes place certain limitations on the nature of deposits and investments available to the WRA. The WRA's deposits are subject to custodial credit risk similar to the risks born by the Town. The WRA does not have a formal deposit policy to mitigate custodial credit risk. At June 30, 2017, all the WRA's bank deposits were covered by federal depository insurance.

B. Receivables

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

Receivables	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 487,236	\$ -	\$ 487,236
Tax liens	1,724,151	-	1,724,151
Motor vehicle excise	282,821	-	282,821
Septic loans	17,165	-	17,165
Departmental and other	607,080	(474,528)	132,552
Tax foreclosures	50,694	-	50,694
Intergovernmental:			
Due from MCWT	60,887	-	60,887
Due from Commonwealth of MA	198,413	-	198,413
Total Governmental Receivables	<u>\$ 3,428,447</u>	<u>\$ (474,528)</u>	<u>\$ 2,953,919</u>

Receivables as of year-end for the Town's proprietary funds, including any applicable allowances for uncollectible accounts, are as follows:

Receivables	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees - water	\$ 276,253	\$ -	\$ 276,253
User fees - sewer	345,515	-	345,515
Betterments - sewer	2,765,823	-	2,765,823
Intergovernmental:			
Due from MCWT - water	157,527	-	157,527
Due from MCWT - sewer	1,267,587	-	1,267,587
Total Enterprise Receivables	<u>\$ 4,812,705</u>	<u>\$ -</u>	<u>\$ 4,812,705</u>

Betterments – Unapportioned sewer betterments of \$2,765,823 are included in the betterments receivable amount above within the sewer enterprise fund and represent amounts that are expected to be billed in future years for sewer projects that have been funded through long-term bond or note issuances.

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 \$1,486,001 and interest in the amount of \$552,217 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$60,887; \$157,527 and \$1,267,587 are reported as receivables in the general fund, water enterprise fund and sewer enterprise fund, respectively.

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

	General Fund	Other Governmental	Total
Receivable type:			
Real estate and personal property taxes	\$ 487,236	\$ -	\$ 487,236
Tax liens and deferrals	1,724,151	-	1,724,151
Tax foreclosures	50,694	-	50,694
Motor vehicle and other excise taxes	282,821	-	282,821
Ambulance fees	132,552	-	132,552
Intergovernmental:	60,887	-	60,887
Other	-	17,165	17,165
Total	<u>\$ 2,738,341</u>	<u>\$ 17,165</u>	<u>\$ 2,755,506</u>

C. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In					Total	
	General Fund	Capital Projects Funds	Nonmajor Funds	Water Enterprise	Sewer Enterprise		
General Fund	\$ -	\$ 285,500	\$ 5,864	\$ 18,575	\$ 213,534	\$ 523,473	(1)
Nonmajor Funds	11,027	928,383	-	42,500	-	981,910	(2)
Internal Service Fund	112,300	-	-	-	-	112,300	(3)
	<u>\$ 123,327</u>	<u>\$ 1,213,883</u>	<u>\$ 5,864</u>	<u>\$ 61,075</u>	<u>\$ 213,534</u>	<u>\$ 1,617,683</u>	

(1) Transfers to enterprise funds for debt service and capital projects to subsidize capital.

(2) Transfers to enterprise funds and capital projects to subsidize capital.

(3) Transfer to general fund to close internal service fund.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,853,761	\$ -	\$ -	\$ 1,853,761
Construction in progress	2,657,276	218,800	(2,657,276)	218,800
Total capital assets not being depreciated	4,511,037	218,800	(2,657,276)	2,072,561
Capital assets being depreciated:				
Buildings and improvements	28,164,671	3,210,435	-	31,375,106
Infrastructure	8,262,504	417,529	-	8,680,033
Machinery, equipment and vehicles	12,019,594	223,241	-	12,242,835
Artwork	100,000	-	-	100,000
Total capital assets being depreciated	48,546,769	3,851,205	-	52,397,974
Less accumulated depreciation for:				
Buildings and improvements	(17,414,184)	(791,604)	-	(18,205,788)
Infrastructure	(1,426,170)	(231,722)	-	(1,657,892)
Machinery, equipment and vehicles	(9,417,853)	(690,432)	-	(10,108,285)
Total accumulated depreciation	(28,258,207)	(1,713,758)	-	(29,971,965)
Total capital assets being depreciated, net	20,288,562	2,137,447	-	22,426,009
Governmental activities capital assets, net	\$ 24,799,599	\$ 2,356,247	\$ (2,657,276)	\$ 24,498,570
<u>Business Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 26,735	\$ -	\$ -	\$ 26,735
Total capital assets not being depreciated	26,735	-	-	26,735
Capital assets being depreciated:				
Buildings and improvements	2,532,440	-	-	2,532,440
Infrastructure	23,079,019	-	-	23,079,019
Machinery, equipment and vehicles	528,238	111,050	-	639,288
Total capital assets being depreciated	26,139,697	111,050	-	26,250,747
Less accumulated depreciation for:				
Buildings and improvements	(1,457,836)	(55,026)	-	(1,512,862)
Infrastructure	(6,211,549)	(464,362)	-	(6,675,911)
Machinery, equipment and vehicles	(241,114)	(41,854)	-	(282,968)
Total accumulated depreciation	(7,910,499)	(561,242)	-	(8,471,741)
Total capital assets being depreciated, net	18,229,198	(450,192)	-	17,779,006
Business activities capital assets, net	\$ 18,255,933	\$ (450,192)	\$ -	\$ 17,805,741

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities - Water:</i></u>				
Capital assets not being depreciated:				
Land	\$ 16,385	\$ -	\$ -	\$ 16,385
Total capital assets not being depreciated	16,385	-	-	16,385
Capital assets being depreciated:				
Buildings and improvements	2,210,726	-	-	2,210,726
Infrastructure	8,388,144	-	-	8,388,144
Machinery, equipment and vehicles	491,139	65,728	-	556,867
Total capital assets being depreciated	11,090,009	65,728	-	11,155,737
Less accumulated depreciation for:				
Buildings and improvements	(1,296,978)	(44,302)	-	(1,341,280)
Infrastructure	(1,790,584)	(164,189)	-	(1,954,773)
Machinery, equipment and vehicles	(206,106)	(37,571)	-	(243,677)
Total accumulated depreciation	(3,293,668)	(246,062)	-	(3,539,730)
Total capital assets being depreciated, net	7,796,341	(180,334)	-	7,616,007
Water activities capital assets, net	<u>\$ 7,812,726</u>	<u>\$ (180,334)</u>	<u>\$ -</u>	<u>\$ 7,632,392</u>
<u><i>Business-Type Activities - Sewer:</i></u>				
Capital assets not being depreciated:				
Land	\$ 10,350	\$ -	\$ -	\$ 10,350
Total capital assets not being depreciated	10,350	-	-	10,350
Capital assets being depreciated:				
Buildings and improvements	321,714	-	-	321,714
Infrastructure	14,690,875	-	-	14,690,875
Machinery, equipment and vehicles	37,099	45,322	-	82,421
Total capital assets being depreciated	15,049,688	45,322	-	15,095,010
Less accumulated depreciation for:				
Buildings and improvements	(160,858)	(10,724)	-	(171,582)
Infrastructure	(4,420,965)	(300,173)	-	(4,721,138)
Machinery, equipment and vehicles	(35,008)	(4,283)	-	(39,291)
Total accumulated depreciation	(4,616,831)	(315,180)	-	(4,932,011)
Total capital assets being depreciated, net	10,432,857	(269,858)	-	10,162,999
Sewer activities capital assets, net	<u>\$ 10,443,207</u>	<u>\$ (269,858)</u>	<u>\$ -</u>	<u>\$ 10,173,349</u>
<u><i>Business-Type Activities - All:</i></u>				
Business-type activities capital assets, net	<u>\$ 18,255,933</u>	<u>\$ (450,192)</u>	<u>\$ -</u>	<u>\$ 17,805,741</u>

For the year ended June 30, 2017, depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>	
General government	\$ 81,998	Water	\$ 246,062
Public safety	306,491	Sewer	315,180
Education	920,303	Total Business-Type Activities	<u>\$ 561,242</u>
Public works	301,877		
Health and human services	58,161		
Culture and recreation	44,928		
Total Governmental Activities	<u>\$ 1,713,758</u>		

E. Capital Leases

The Town has entered into a non-cancelable lease for the purchase of a sewer vehicle. This lease qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	<u>Amount</u>
<i>Asset:</i>	
Ford F-350	\$ 45,867
Less: accumulated depreciation	<u>(9,173)</u>
Total	<u>\$ 36,694</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2017	\$ 16,041
2018	16,041
Total minimum lease payments	32,082
Less: amounts representing interest	<u>(2,256)</u>
Present value of minimum lease payments	<u>\$ 29,826</u>

F. Temporary Debt

The Town (excluding component units) 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 anticipation notes (RANs) tax anticipation notes (TANs).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANs) or state aid anticipation notes (SAANs). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not

exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates 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	Beginning Balance	Additions	Retirements	Ending Balance
RAN	0.80%	Matured	\$ 533,000	\$ -	\$ (533,000)	\$ -
RAN	0.75%	Matured	2,700,000	-	(2,700,000)	-
BAN	0.90%	06/22/18	-	496,000	-	496,000
BAN	0.95%	09/01/17	-	479,700	-	479,700
BAN	1.25%	03/01/18	-	1,734,548	-	1,734,548
Less Deficit Notes			(3,233,000)	(2,214,248)	3,233,000	(2,214,248)
Total Governmental Notes			-	496,000	-	496,000
BAN	0.90%	06/22/18	-	140,000	-	140,000
Total Business-Type Notes			-	140,000	-	140,000
Total Notes Payable			\$ -	\$ 636,000	\$ -	\$ 636,000

Out of the above notes, the deficit notes have been given the same accounting treatment as a long-term issuance due to the deficit legislation including, in effect, a financing arrangement to extinguish this obligation over a ten-year period and therefore satisfying intent. The remaining notes in the governmental activities are for library construction.

G. Long-Term Obligations

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 and landfill closure.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.”

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

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 3,913,896	\$ -	\$ (292,809)	\$ 3,621,087	\$ 292,810
Deficit notes	3,204,036	-	(1,018,752)	2,185,284	2,185,284
Compensated absences	734,335	26,929	(31,881)	729,383	182,346
Landfill post-closure monitoring	405,000	-	(27,000)	378,000	27,000
Net pension liability	18,922,614	6,269,479	(2,804,362)	22,387,731	-
Other postemployment benefits	13,837,661	3,056,116	(910,317)	15,983,460	-
Total Governmental Activities	<u>\$ 41,017,542</u>	<u>\$ 9,352,524</u>	<u>\$ (5,085,121)</u>	<u>\$ 45,284,945</u>	<u>\$ 2,687,440</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds	\$ 2,488,124	\$ -	\$ (230,849)	\$ 2,257,275	\$ 236,679
Net pension liability	42,382	14,042	(6,281)	50,143	-
Other postemployment benefits	31,023	6,851	(2,041)	35,833	-
Total Water Enterprise	<u>2,561,529</u>	<u>20,893</u>	<u>(239,171)</u>	<u>2,343,251</u>	<u>236,679</u>
<u>Sewer</u>					
General obligation bonds	5,834,017	-	(716,926)	5,117,091	739,840
Capital lease obligation	-	45,867	(16,041)	29,826	14,549
Net pension liability	223,274	73,975	(33,089)	264,160	-
Other postemployment benefits	163,227	36,049	(10,738)	188,538	-
Total Sewer Enterprise	<u>6,220,518</u>	<u>155,891</u>	<u>(776,794)</u>	<u>5,599,615</u>	<u>754,389</u>
<u>Transfer Station</u>					
Deficit Notes	28,964	28,964	(28,964)	28,964	28,964
Net pension liability	76,094	25,213	(11,278)	90,029	-
Other postemployment benefits	55,622	12,284	(3,659)	64,247	-
Total Transfer Station Enterprise	<u>160,680</u>	<u>66,461</u>	<u>(43,901)</u>	<u>183,240</u>	<u>28,964</u>
Total Business-type Activities	<u>\$ 8,942,727</u>	<u>\$ 243,245</u>	<u>\$ (1,059,866)</u>	<u>\$ 8,126,106</u>	<u>\$ 1,020,032</u>

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

The following is a summary of outstanding long-term debt obligations as of June 30, 2017:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 4.00%	\$ 3,600,000	\$ -	\$ (220,000)	\$ 3,380,000
MCWT notes	0.00 - 2.00%	313,896	-	(72,809)	241,087
Total Governmental Activities		\$ 3,913,896	\$ -	\$ (292,809)	\$ 3,621,087
<i>Business-type Activities - Water:</i>					
USDA bond notes	2.25 - 3.25%	\$ 1,722,181	\$ -	\$ (48,389)	\$ 1,673,792
MCWT notes	1.50 - 2.00%	765,943	-	(182,460)	583,483
Total Water		2,488,124	-	(230,849)	2,257,275
<i>Business-type Activities - Sewer:</i>					
USDA bond notes	4.75%	124,901	-	(5,900)	119,001
MCWT notes	1.50 - 2.00%	5,709,116	-	(711,026)	4,998,090
Total Sewer		5,834,017	-	(716,926)	5,117,091
Total Business-type Activities		\$ 8,322,141	\$ -	\$ (947,775)	\$ 7,374,366

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

<i>Governmental Activities:</i>							
Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2018	\$ 292,810	\$ (19,420)	\$ 273,390	\$ 106,728	\$ (9,079)	\$ 97,649	\$ 371,039
2019	292,809	(20,355)	272,454	98,242	(6,248)	91,994	364,448
2020	292,809	(21,112)	271,697	88,613	(2,532)	86,081	357,778
2021	222,659	-	222,659	79,833	(201)	79,632	302,291
2022	215,000	-	215,000	72,106	-	72,106	287,106
2023-2027	1,075,000	-	1,075,000	250,211	-	250,211	1,325,211
2028-2032	1,030,000	-	1,030,000	105,900	-	105,900	1,135,900
2033-2037	200,000	-	200,000	3,000	-	3,000	203,000
Totals	<u>\$ 3,621,087</u>	<u>\$ (60,887)</u>	<u>\$ 3,560,200</u>	<u>\$ 804,633</u>	<u>\$ (18,060)</u>	<u>\$ 786,573</u>	<u>\$ 4,346,773</u>

<i>Business-Type Activities - Water:</i>							
Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2018	\$ 236,679	\$ (49,688)	\$ 186,991	\$ 64,624	\$ (19,965)	\$ 44,659	\$ 231,650
2019	247,059	(52,407)	194,652	55,031	(14,557)	40,474	235,126
2020	252,964	(55,432)	197,532	44,045	(4,964)	39,081	236,613
2021	53,885	-	53,885	37,649	-	37,649	91,534
2022	55,357	-	55,357	36,177	-	36,177	91,534
2023-2027	300,368	-	300,368	157,302	-	157,302	457,670
2028-2032	313,558	-	313,558	113,720	-	113,720	427,278
2033-2037	190,598	-	190,598	81,322	-	81,322	271,920
2038-2042	213,027	-	213,027	58,893	-	58,893	271,920
2043-2047	238,096	-	238,096	33,825	-	33,825	271,921
2048-2052	155,684	-	155,684	7,048	-	7,048	162,732
Totals	<u>\$ 2,257,275</u>	<u>\$ (157,527)</u>	<u>\$ 2,099,748</u>	<u>\$ 689,636</u>	<u>\$ (39,486)</u>	<u>\$ 650,150</u>	<u>\$ 2,749,898</u>

Business-Type Activities - Sewer:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2018	\$ 739,840	\$ (178,847)	\$ 560,993	\$ 193,287	\$ (136,174)	\$ 57,113	\$ 618,106
2019	757,771	(182,056)	575,715	171,976	(125,196)	46,780	622,495
2020	781,898	(199,770)	582,128	121,656	(85,165)	36,491	618,619
2021	804,858	(205,594)	599,264	94,032	(68,334)	25,698	624,962
2022	827,831	(209,861)	617,970	68,851	(54,371)	14,480	632,450
2023-2027	1,162,727	(291,459)	871,268	41,740	(25,431)	16,309	887,577
2028-2032	42,166	-	42,166	5,120	-	5,120	47,286
Totals	<u>\$ 5,117,091</u>	<u>\$ (1,267,587)</u>	<u>\$ 3,849,504</u>	<u>\$ 696,662</u>	<u>\$ (494,671)</u>	<u>\$ 201,991</u>	<u>\$ 4,051,495</u>

MCWT Loan Subsidies – As previously noted in Note II. C., the Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$1,486,001 and interest in the amount of \$552,217 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2017, the Town had authorized and unissued debt for the following:

Project	Amount
<i>Governmental:</i>	
Police Station	\$ 691,000
Upgrade Streetlight	\$ 230,823
Maintenance garage	25,000
School generator	75,000
Town Hall boiler	91,245
Equipment	9,500
<i>Business-Type:</i>	
Water	40,000
Total authorized and unissued	<u>\$ 1,162,568</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Worcester Regional Retirement System (the “System”), a cost-sharing multiple-employer defined benefit pension plan. The System was established under Chapter 32 of Massachusetts General Laws. The System is administered by the Worcester Regional Retirement Board (the “Board”). Stand-alone financial statements for the year ended December 31, 2016 were issued and are available by submitting a request to the System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

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

Retirees and beneficiaries currently receiving benefits	3,618
Active plan members	7,473
Inactive plan members	<u>1,674</u>
Total	<u>12,765</u>

Benefit Terms – 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. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to 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.

The most common benefits paid by the System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the System.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2016.

Contributions Requirements – The Town 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 \$1,321,787 to the System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 23.5% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$22,792,062 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 2.7% at December 31, 2017, which was consistent with the proportion measured at January 1, 2016.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the System's full financial statements as of and for the year ended December 31, 2016, which can be obtained by contacting the Board.

The System's fiduciary net position was determined using the accrual basis of accounting. The System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$2,710,049 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on pension plan investments	\$ 790,895	\$ -
Changes of assumptions	2,695,914	-
Difference between expected and actual experience	185,850	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	(326,462)
Total	<u>\$ 3,672,659</u>	<u>\$ (326,462)</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	\$ 793,486
2019	793,485
2020	791,051
2021	552,359
2022	415,816
Total	<u>\$ 3,346,197</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
Amortization method:	Payment increases 4.0% per year, except for Early Retirement Incentive (ERI) Programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	20 years, except for ERI for 2002 and 2003 (13 years) and 2010 (7 years)
Asset valuation method:	5-year smoothed market value
Inflation:	3.0% per year (3.5% per year for the actuarial valuation as of January 1, 2014)
Salary increases:	Group 1: 4.20-6.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014) Group 4: 4.75-7.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014)

Investment rate of return:	7.75%, net of pension plan investment expense, including inflation (8.00% for the actuarial valuation as of January 1, 2014)
Mortality rates:	Based on the RP-2000 Mortality Table projected to 2014 with Scale AA.
Disabled life mortality:	For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	40 %	4.97 %
Fixed income	22 %	2.29 %
Private equity	11 %	6.50 %
Real estate	10 %	3.50 %
Timber/natural resources	4 %	3.00 %
Hedge funds	13 %	3.48 %

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town's proportionate share of the net pension liability	\$ 27,453,306	\$ 22,792,062	\$ 18,857,198

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the Town's school department participate in the Massachusetts Teachers' Retirement System ("MTRS"), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth's legislature has the authority to amend or modify the MTRS's funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2017, the Commonwealth contributed \$1,505,739 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.1333893%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following:

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 29,935,719	\$ (29,935,719)	\$ —
Pension expense	3,053,640	(3,053,640)	—

The Town recognized \$3,053,640 in intergovernmental revenue and pension expense relative to this arrangement.

MTRS issues certain financial information to the public on its website – www.mass.gov/mtrs. A more detailed discussion of its funding policies, actuarial assumptions and other inputs used to measure total pension liability may be found there.

C. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consisted of 259 active employees and 118 retired employees (includes 63 spouses), for a total of 377 participants.

Funding Policy - 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 cost of the calculated health insurance contributions. The

remainder of the health insurance premiums is funded by the Town. The Town pays 50% of the annual cost of life insurance premiums (\$5,000 policy) for each participant; the participants pay the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. 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)	\$ 3,259,069
Interest on net OPEB obligation	563,502
Adjustment to ARC	<u>(711,271)</u>
Annual OPEB cost	3,111,300
Contributions made	<u>(926,755)</u>
Increase in net OPEB obligation	2,184,545
Net OPEB obligation at beginning of year	<u>14,087,533</u>
Net OPEB obligation at end of year	<u><u>\$ 16,272,078</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$3,111,300	29.8%	\$16,272,078
June 30, 2016	2,463,212	30.6%	14,087,533
June 30, 2015	2,358,497	29.8%	12,377,891

* The current year period is reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$115,281; Public Safety \$283,983; Education \$1,617,041; Public Works \$89,214; Health and Human Services \$20,187; Culture and Recreation \$20,092; Water \$4,811; Sewer \$25,311; and Transfer Station \$8,625.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2017, for the most recent actuarial valuation performed as of July 1, 2016, was as follows:

Actuarial value of plan assets	\$ -
Actuarial accrued liability (AAL)	\$ 24,874,256

Unfunded actuarial accrued liability (UAAL)	\$ 24,874,256
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annually payroll of active employees covered by the plan)	\$ 14,084,035
UAAL as a percentage of covered payroll	176.6%

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 schedule 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	July 1, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	24 years as of June 30, 2015 (closed)
Interest discount rate	4%
Salary increases	3.5%
Inflation rate	2.5%
Healthcare/Medical cost trend rate	5%

D. Risk Financing

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation.

The Town is a part of a premium-based self-insurance group which insures for worker's compensation, and general and personal liability, through the Massachusetts Inter-Local Insurance Association ("MIIA"). The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town's experience history. In addition, the Town is entirely self-insured for police and fire employees' unemployment insurance. Unemployment claims for other Town employees are paid to employees by the Commonwealth of Massachusetts, for which the Town is billed on a monthly basis. All other insurance is carried through conventional carriers. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

Group Health Insurance Plan – Until March 1, 2015, the Town maintained a "reinsured cost reimbursement program" that covered the group health insurance requirements of a majority of

Town and WRA employees. *The Plan was discontinued in March, 2015.* The Plan was essentially a self-insurance program, except employee claims in excess of \$70,000, effective July 1, 2012 which were covered by reinsurance through the Plan. The Town, as employer, made health contributions of approximately 60% of the health costs. Employees contributed the remaining 40%. The Town still accrues an amount representing claims incurred but not reported (“IBNR”), which is based on a monthly claims paid average. This will continue in effect as the Plan runs off which occurred in the current fiscal year.

Additionally, please refer to previous discussions regarding significant deficits experienced by the Trust.

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, 2016, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2017.

Grant Compliance – Amounts received 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, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Sewer Treatment Plant Capacity – The Town is under a consent decree from the Massachusetts Department of Environmental Protection (“MA DEP”), the U.S. Environmental Protection Agency and U.S. Department of Justice to increase its sewer treatment plant capacity. The total estimated cost of \$15,545,000 represents \$15,500,000 in construction costs and a civil penalty of \$45,000 for failure to respond within required timeframes. In May 1998 and September 2001, the Town authorized borrowing of \$5,000,000 and \$10,500,000, respectively. The Town is currently complying with various interim milestones contained in the decree and the project is substantially completed.

Safe Water Drinking Act – In a prior year, the Town received a first notice from the MA DEP regarding issues to be resolved in order for the Town to comply with the Safe Water Drinking Act. The issues include removal and monitoring of water storage tanks, devices to monitor water leaks, capital project planning, and increased staffing. The cost of compliance cannot be estimated at the current time. However, in all likelihood, the cost of compliance is expected to have a material effect on the Town’s financial condition.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill was closed in 1999 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 thirty years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining monitoring cost of \$378,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Since the Town has not created a plan, the statement was not applicable to the Town.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 77 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 or local governmental employer. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of GASB No. 78 did not have a material effect on the Town.

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

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

Future Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting

and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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

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

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

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

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

IV. Economic Dependence

During the year ended June 30, 2017, approximately 55% of revenues of the general fund were recognized from the Commonwealth of Massachusetts, as well as, the federal government.

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

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

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	2.721136%	2.714029%	2.806321%
Town's proportionate share of the net pension liability (asset)	\$ 22,792,062	\$ 19,264,364	\$16,699,512
Town's covered-employee payroll	\$ 5,627,632	\$ 6,145,760	\$ 5,909,385
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	405.0%	313.5%	282.6%
Plan fiduciary net position as a percentage of the total pension liability	42.00%	44.52%	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,321,787	\$ 1,220,934	\$ 1,109,031
Contributions in relation to the actuarially determined contribution	<u>1,321,787</u>	<u>1,220,934</u>	<u>1,109,031</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 5,627,632	\$ 6,145,760	\$ 5,909,385
Contributions as a percentage of covered-employee payroll	23.5%	19.9%	18.8%

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 WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2017

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS' TEACHER'S RETIREMENT SYSTEM

	Year Ended June 30,		
	2016	2015	2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,124,583	\$ 1,021,930	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

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 auditor's report.

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB

FISCAL YEAR ENDED JUNE 30, 2017

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
7/1/2016	\$ -	\$ 36,791,950	\$ 36,791,950	0.0%	\$ 14,607,172	251.9%
7/1/2014	-	28,059,612	28,059,612	0.0%	17,978,454	156.1%
7/1/2012	-	24,874,256	24,874,256	0.0%	14,084,035	176.6%

SCHEDULE OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2017	\$ 3,111,300	\$ 926,755	29.8%
2016	2,463,212	753,570	30.6%
2015	2,398,102	702,963	29.8%

See accompanying independent auditors' report.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Positive
	Budget	Budget	Amounts		Adjusted	(Negative)
Revenues:						
Property taxes	\$ 11,447,735	\$ 11,330,735	\$ 11,409,862		\$ 11,409,862	\$ 79,127
Intergovernmental	13,634,652	13,634,652	13,726,391		13,726,391	91,739
Motor vehicle and other excise	1,179,000	1,179,000	1,241,891		1,241,891	62,891
Departmental and other revenue	743,151	743,151	776,321		776,321	33,170
Licenses and permits	198,000	198,000	190,538		190,538	(7,462)
Fines and forfeitures	29,600	29,600	19,589		19,589	(10,011)
Penalties and interest on taxes	218,000	218,000	284,210		284,210	66,210
Investment income	5,200	5,200	6,784		6,784	1,584
Total Revenues	27,455,338	27,338,338	27,655,586		27,655,586	317,248
Expenditures:						
General government	1,881,845	1,909,310	1,621,345	\$ 91,310	1,712,655	196,655
Public safety	2,542,748	2,592,671	2,529,164	6,842	2,536,006	56,665
Education	15,189,275	15,187,490	14,996,323	34,850	15,031,173	156,317
Public works	1,036,618	1,150,259	1,115,412	-	1,115,412	34,847
Health and human services	737,182	725,846	616,010	4,818	620,828	105,018
Culture and recreation	176,445	178,900	156,627	4,083	160,710	18,190
Pension and fringe benefits	4,041,823	3,944,955	3,597,417	-	3,597,417	347,538
State and county tax assessments	1,469,748	1,469,748	1,411,718	-	1,411,718	58,030
Debt service	1,189,529	1,737,981	1,728,756	-	1,728,756	9,225
Total Expenditures	28,265,213	28,897,160	27,772,772	141,903	27,914,675	982,485
Other Financing Sources (Uses):						
Transfers in	552,455	552,455	664,755		664,755	112,300
Transfers out	(145,500)	(291,364)	(291,364)		(291,364)	-
Total Other Financing Sources (Uses)	406,955	261,091	373,391		373,391	112,300
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(402,920)	(1,297,731)	\$ 256,205		\$ 114,302	\$ 1,412,033
Other Budgetary Items:						
Prior year encumbrances	191,142	191,142				
Overlay surplus	25,500	25,500				
Undesignated surplus (free cash)	200,000	1,105,452				
Other	15,529	4,888				
Prior year deficits	(29,251)	(29,251)				
Total other budgetary items	402,920	1,297,731				
NET BUDGET	\$ -	\$ -				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

TOWN OF WINCHENDON, 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 the Enterprise Fund. The budget is initiated by department heads and finalized by the Town Manager as a proposed budget for Town Meeting. The Finance Committee and the Board of Selectmen give recommendations for Town meeting to consider prior to final approval. It is then presented to Town Meeting for final approval, annually 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. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. During fiscal year 2017, the final approved budget did not vary materially from the original approved budget. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. 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
Revenues on a budgetary basis			\$ 27,655,586
MTRS on-behalf payments	\$ 3,053,640	\$ -	3,053,640
MCWT debt subsidies	30,727	-	30,727
Stabilization investment income	-	21,834	21,834
Revenues on a GAAP basis	<u>\$ 3,084,367</u>	<u>\$ 21,834</u>	<u>\$ 30,761,787</u>
Expenditures on a budgetary basis			\$ 27,772,772
MTRS on-behalf payments	\$ 3,053,640	\$ -	3,053,640
MCWT debt subsidies	30,727	-	30,727
Debt payments transferred to water	-	(18,575)	(18,575)
Debt payments transferred to sewer	-	(213,534)	(213,534)
Indirect cost accounting treatment	(470,029)	-	(470,029)
Expenditures on a GAAP basis	<u>\$ 2,614,338</u>	<u>\$ (232,109)</u>	<u>\$ 30,155,001</u>
Net transfers on a budgetary basis			\$ 373,391
Infrastructure fund transfers	\$ -	\$ (71,399)	(71,399)
Debt payments transferred to water	-	(18,575)	(18,575)
Debt payments transferred to sewer	-	(213,534)	(213,534)
Indirect cost accounting treatment	(470,029)	-	(470,029)
Net transfers on a GAAP basis	<u>\$ (470,029)</u>	<u>\$ (303,508)</u>	<u>\$ (400,146)</u>