

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHENDON, MASSACHUSETTS

Report on Examination of the Basic Financial Statements and
Additional Information

Year Ended June 30, 2018



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, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and 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, 2018, 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.

Restatement of Prior Year Ending Balances

As discussed in Note IV certain balances in the Statement of Net Position and Proprietary funds were restated as result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2018 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 & Associates

Roselli, Clark & Associates
Certified Public Accountants
December 3, 2018

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, 2018.

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 borrowed \$3,533,000. This is 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. The Town began making payments on this obligation during fiscal year 2016 and as of June 30, 2018 the Town has paid down almost \$3 million of this issuance and is expected to pay the remaining outstanding balance during fiscal year 2019.
- During the year ended June 30, 2018 The Town adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Previously, OPEB was accounted for under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The result of the adoption of GASB Statement No. 75 was to record a prior period restatement to eliminate the net OPEB obligation recorded in the prior year Town financial statements and record the net OPEB liability as of June 30, 2017.

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

- The assets and deferred outflows of resources of the Town were in deficit to its liabilities and deferred inflows of resources at the close of the most recent fiscal year by almost \$17.7 million (*total net position*), a decrease of almost \$1.2 million over the prior year. Governmental activities decreased by approximately \$1.0 million and business-type activities decreased by approximately \$0.2 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 approximately \$5.7 million which is almost \$1.7 million lower than the prior year. Detail of this reduction is discussed later in the management discussion and analysis.
- The Town's total long-term debt decreased by almost \$1.0 million during the current fiscal year due to regular scheduled debt payments. In addition, the Town, under its special legislation notes, made paybacks of over \$1.1 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.

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.

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, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Assets</u>						
Current and other assets	\$ 10,279,274	\$ 11,779,993	\$ 3,023,452	\$ 6,744,989	\$ 13,302,726	\$ 18,524,982
Capital assets, net	26,516,997	24,498,570	20,455,996	17,805,741	46,972,993	42,304,311
Total assets	36,796,271	36,278,563	23,479,448	24,550,730	60,275,719	60,829,293
<u>Deferred outflows of resources</u>	2,086,050	3,607,506	37,765	65,153	2,123,815	3,672,659
<u>Liabilities</u>						
Long-term liabilities	65,755,029	45,284,945	7,544,542	8,126,106	73,299,571	53,411,051
Other liabilities	2,663,261	1,738,315	319,514	271,849	2,982,775	2,010,164
Total liabilities	68,418,290	47,023,260	7,864,056	8,397,955	76,282,346	55,421,215
<u>Deferred inflows of resources</u>	3,727,012	320,671	67,306	5,791	3,794,318	326,462
<u>Net Position</u>						
Net investment in capital assets	22,605,694	18,692,199	11,044,107	14,622,312	33,649,801	33,314,511
Restricted	1,673,034	1,971,992	-	-	1,673,034	1,971,992
Unrestricted	(57,541,709)	(28,122,053)	4,541,744	1,589,825	(52,999,965)	(26,532,228)
Total Net Position (deficit)	<u>\$ (33,262,981)</u>	<u>\$ (7,457,862)</u>	<u>\$ 15,585,851</u>	<u>\$ 16,212,137</u>	<u>\$ (17,677,130)</u>	<u>\$ 8,754,275</u>

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 were in deficit to its liabilities and deferred inflows of resources at the close of the most recent fiscal year by almost \$17.7 million (*total net position*).

The largest portion (approximately \$33.7 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 \$1.7 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 net pension and OPEB liabilities which in aggregate are over \$62.1 million. The Town does not have a funding mechanism in place for OPEB, therefore we expect this deficit to exist for the foreseeable future.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,809,197	\$ 1,287,765	\$ 2,108,696	\$ 2,004,814	\$ 3,917,893	\$ 3,292,579
Operating grants and contributions	17,536,119	17,502,520	156,139	179,517	17,692,258	17,682,037
Capital grants and contributions	1,673,619	1,497,884	-	-	1,673,619	1,497,884
General revenues:						
Property taxes	11,533,139	11,344,838	-	-	11,533,139	11,344,838
Intergovernmental	2,634,210	1,533,640	-	-	2,634,210	1,533,640
Other	1,645,924	1,596,534	-	-	1,645,924	1,596,534
Total Revenues	36,832,208	34,763,181	2,264,835	2,184,331	39,097,043	36,947,512
<u>Expenses</u>						
General government	2,210,136	2,238,103	-	-	2,210,136	2,238,103
Public safety	4,489,355	4,523,791	-	-	4,489,355	4,523,791
Education	26,062,667	26,726,245	-	-	26,062,667	26,726,245
Public works	2,014,898	1,825,255	-	-	2,014,898	1,825,255
Health and human services	868,295	876,010	-	-	868,295	876,010
Culture and recreation	828,308	406,078	-	-	828,308	406,078
Community development	851,721	72,417	-	-	851,721	72,417
Debt service	179,704	215,812	-	-	179,704	215,812
Water	-	-	1,081,786	1,132,662	1,081,786	1,132,662
Sewer	-	-	1,494,464	1,454,132	1,494,464	1,454,132
Transfer station	-	-	193,835	185,412	193,835	185,412
Total Expenses	37,505,084	36,883,711	2,770,085	2,772,206	40,275,169	39,655,917
Change in net position before transfers	(672,876)	(2,120,530)	(505,250)	(587,875)	(1,178,126)	(2,708,405)
Transfers	(326,881)	(274,609)	326,881	274,609	-	-
Change in net position	(999,757)	(2,395,139)	(178,369)	(313,266)	(1,178,126)	(2,708,405)
Net position, beginning of year	(7,457,862)	(5,062,723)	16,212,137	16,525,403	8,754,275	11,462,680
Prior period adjustment	(24,805,362)	-	(447,917)	-	(25,253,279)	-
Net position, end of year	<u>\$ (33,262,981)</u>	<u>\$ (7,457,862)</u>	<u>\$ 15,585,851</u>	<u>\$ 16,212,137</u>	<u>\$ (17,677,130)</u>	<u>\$ 8,754,275</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.

Total revenues increased almost \$2.1 million over the prior year. This was primarily due to an increase in intergovernmental revenues as the Town received funds for its community development program causing intergovernmental revenues to exceed the prior year by about \$1.0 million. The remaining increase in revenues was scattered across all categories.

Intergovernmental revenues make up the largest portion of the Town's total revenue at just under 60% and property taxes makes up the next most at just over 31%. No other revenues exceed 10% of the Town's total revenues.

The Town's total expenses exceeded the prior year by just over \$0.6 million as expenses for the most part in each category were consistent with the prior year balances.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 69.5% of total fiscal year expenses, which is consistent with the prior year amount of 72.5%. Public Safety expenses were consistent at 12.0% and 12.3% respectively for 2018 and 2017. No other expense categories were greater than 10% of total expenses in either 2018 or 2017.

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 39.1%, 54.0% and 7.0% of total fiscal year 2018 business-type activities expenses, respectively; consistent with 40.9%, 52.5% and 6.7% of total fiscal year 2017 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 almost \$6.0 million; about \$1.6 million lower than the prior year.

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 \$2.5 million, while total fund balance was over \$3.2 million. The reduction of over \$0.9 million from the prior year was due to the Town's accelerated pay back of its deficit note.

The capital projects major fund had a deficit fund balance of almost \$0.3 million. This was due to library construction subsidized by short term notes. The aggregate nonmajor funds had a restricted fund balance of almost \$2.4 million and nonspendable fund balances of over \$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, 2018, net position of the water and sewer enterprise funds were approximately \$6.0 million and \$9.9 million, respectively and the transfer station enterprise fund had a deficit fund balance almost \$0.3 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 \$26.5 million and \$17.5 million, respectively. Governmental net capital

assets increased by over \$2.0 million as additions exceeded depreciation. Business-type net capital assets decreased by over \$0.3 million as fiscal year 2018 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 and is currently renovating its Library.

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

Long-term Debt – At June 30, 2018, the Town had total debt outstanding of over \$9.7 million, which represents a decrease of approximately \$1.3 million from the prior year. This was a result of regular paybacks of \$1.3 million. At June 30, 2018, the Town had over \$3.3 million in general obligation bonds of governmental activities and almost \$6.4 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 \$1.2 million of principal and approximately \$0.4 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, 2018 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 2019 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 2019. This represents almost 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, 2018.
- 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 will be discontinued upon final payment of deficit notes in March 2019.

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, 2018

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Winchendon Redevelopment Authority
	Activities	Activities		
Assets				
Cash and cash equivalents	\$ 4,875,078	\$ 1,804,619	\$ 6,679,697	\$ 75,473
Investments	2,242,813	-	2,242,813	-
Receivables, net:				
Property taxes	2,048,774	-	2,048,774	-
Motor vehicle excise	290,088	-	290,088	-
User fees	-	614,054	614,054	-
Betterments	-	2,395,507	2,395,507	-
Departmental and other	411,839	-	411,839	-
Intergovernmental	410,682	1,196,579	1,607,261	-
Assets held for development	-	-	-	968,256
Capital assets not being depreciated	2,107,131	26,735	2,133,866	-
Capital assets, net of accumulated depreciation	24,409,866	17,441,955	41,851,821	-
Total Assets	36,796,271	23,479,449	60,275,720	1,043,729
Deferred Outflows of Resources:				
OPEB related items	-	-	-	-
Pension related items	2,086,050	37,765	2,123,815	-
Total Deferred Outflows of Resources	2,086,050	37,765	2,123,815	-
Liabilities:				
Warrants and accounts payable	992,310	179,603	1,171,913	-
Retainage payable	63,582	-	63,582	-
Other liabilities	4,711	-	4,711	-
Bond anticipation notes payable	726,823	140,000	866,823	-
Noncurrent liabilities:				
Due within one year	1,537,133	1,049,071	2,586,204	-
Due in more than one year	65,093,731	6,495,383	71,589,114	-
Total Liabilities	68,418,290	7,864,057	76,282,347	-
Deferred Inflows of Resources:				
Pension related items	2,058,725	37,181	2,095,906	-
OPEB related items	1,668,287	30,125	1,698,412	-
Total Deferred Inflows of Resources	3,727,012	67,306	3,794,318	-
Net Position				
Net Investment in capital assets	22,605,694	11,044,107	33,649,801	-
Restricted for:				
Expendable permanent funds	337,709	-	337,709	-
Capital projects	271,384	-	271,384	-
Federal and State grants	459,908	-	459,908	-
Gifts and donations	604,033	-	604,033	-
Other purposes	-	-	-	1,043,729
Unrestricted	(57,541,709)	4,541,744	(52,999,965)	-
Total Net Position	\$ (33,262,981)	\$ 15,585,851	\$ (17,677,130)	\$ 1,043,729

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2018

FISCAL YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Primary Government Total	Winchendon Redevelopment Authority
<u>Primary Government</u>								
Governmental activities:								
General government	\$ 2,210,136	\$ 306,754	\$ 31,632	\$ 18,381	\$ (1,853,369)		\$ (1,853,369)	
Public safety	4,489,355	1,144,771	246,619	208,749	(2,889,216)		(2,889,216)	
Education	26,062,667	278,320	16,763,407	375,947	(8,644,993)		(8,644,993)	
Public works	2,014,898	11,022	(766)	702,250	(1,302,392)		(1,302,392)	
Health and human services	868,295	62,418	464,514	57,362	(284,001)		(284,001)	
Culture and recreation	828,308	5,912	30,713	238,513	(553,170)		(553,170)	
Community development	851,721	-	-	72,417	(779,304)		(779,304)	
Interest expense	179,704	-	-	-	(179,704)		(179,704)	
Total governmental activities	37,505,084	1,809,197	17,536,119	1,673,619	(16,486,149)		(16,486,149)	
<u>Business-type activities:</u>								
Water	1,081,786	991,391	19,965	-		\$ (70,430)	(70,430)	
Sewer	1,494,464	929,398	136,174	-		(428,892)	(428,892)	
Transfer station	193,835	187,907	-	-		(5,928)	(5,928)	
Total business-type activities	2,770,085	2,108,696	156,139	-		(505,250)	(505,250)	
Total Primary Government	\$ 40,275,169	\$ 3,917,893	\$ 17,692,258	\$ 1,673,619	(16,486,149)	(505,250)	(16,991,399)	
Component unit:								
Winchendon Redevelopment Authority	\$ 11,535	\$ 27,350	\$ -	\$ -				\$ 15,815
<u>General Revenues:</u>								
Property taxes					11,533,139	-	11,533,139	-
Motor vehicle and other excise					1,304,785	-	1,304,785	-
Intergovernmental					2,634,210	-	2,634,210	-
Penalties and interest on taxes					263,686	-	263,686	-
Interest income					77,453	-	77,453	20
Other revenue					-	-	-	-
Transfers (net)					(326,881)	326,881	-	-
Total general revenues and transfers					15,486,392	326,881	15,813,273	20
Change in Net Position					(999,757)	(178,369)	(1,178,126)	15,835
<u>Net Position:</u>								
Beginning of year (as restated -see Note V)					(32,263,224)	15,764,220	(16,499,004)	1,027,894
End of year					\$ (33,262,981)	\$ 15,585,851	\$ (17,677,130)	\$ 1,043,729

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,214,810	\$ 618,564	\$ 2,041,704	\$ 4,875,078
Investments	1,703,540	-	539,273	2,242,813
Receivables, net of allowance for uncollectibles:				
Property taxes	2,048,774	-	-	2,048,774
Motor vehicle excise	290,088	-	-	290,088
Departmental and other	398,353	-	13,486	411,839
Intergovernmental	77,128	-	333,554	410,682
Total Assets	6,732,693	618,564	2,928,017	10,279,274
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 6,732,693	\$ 618,564	\$ 2,928,017	\$ 10,279,274
Liabilities				
Warrants and accounts payable	\$ 707,917	\$ 89,702	\$ 194,691	\$ 992,310
Retainage Payable	-	63,582	-	63,582
Other liabilities	4,713	-	-	4,713
Bond anticipation notes payable	-	726,823	-	726,823
Total Liabilities	712,630	880,107	194,691	1,787,428
Deferred Inflows of Resources				
Unavailable revenue - property taxes	2,048,774	-	-	2,048,774
Unavailable revenue - excise taxes	290,088	-	-	290,088
Unavailable revenue - other	439,820	-	13,486	453,306
Total Deferred Inflows of Resources	2,778,682	-	13,486	2,792,168
Fund Balances				
Nonspendable	-	-	337,709	337,709
Restricted	669,088	-	2,382,131	3,051,219
Assigned	106,801	-	-	106,801
Unassigned:				
General stabilization	1,102,515	-	-	1,102,515
Other	1,362,977	(261,543)	-	1,101,434
Total Fund Balances	3,241,381	(261,543)	2,719,840	5,699,678
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,732,693	\$ 618,564	\$ 2,928,017	\$ 10,279,274

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, 2018**

Total Governmental Fund Balances	\$ 5,699,678
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	26,516,997
Other long-term assets are unavailable to pay for current-period expenditures	2,792,168
Differences arising due to the accounting related to net pension liability and related deferred inflows and outflows	27,325
Differences arising due to the accounting related to net OPEB liability and related deferred inflows and outflows	(1,668,287)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(351,000)
Bonds and notes payable	(4,315,772)
Compensated absences	(919,314)
Net pension liability	(20,169,112)
Net OPEB liability	(40,875,664)
Net Position of Governmental Activities	<u><u>\$ (33,262,981)</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, 2018**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 11,695,752	\$ -	\$ -	\$ 11,695,752
Intergovernmental	16,819,067	-	4,036,803	20,855,870
Motor vehicle and other excises	1,297,518	-	-	1,297,518
Departmental and other revenue	991,459	-	317,477	1,308,936
Licenses and permits	265,962	-	-	265,962
Penalties and interest on taxes	263,686	-	-	263,686
Fines and forfeitures	22,871	-	-	22,871
Investment income	41,804	-	35,649	77,453
Contributions and donations	-	-	989,427	989,427
Total Revenues	<u>31,398,119</u>	<u>-</u>	<u>5,379,356</u>	<u>36,777,475</u>
Expenditures:				
Current:				
General government	1,489,876	-	222,194	1,712,070
Public safety	2,672,339	521,369	201,278	3,394,986
Education	18,616,172	177,696	1,990,786	20,784,654
Public works	1,158,901	477,392	950,212	2,586,505
Health and human services	656,551	-	75,919	732,470
Culture and recreation	191,622	1,229,415	478,595	1,899,632
Community development	-	-	851,721	851,721
Pension and fringe benefits	3,321,315	-	-	3,321,315
State and county assessments	1,260,188	-	-	1,260,188
Debt service:				
Principal	1,876,997	-	-	1,876,997
Interest	179,704	-	-	179,704
Total Expenditures	<u>31,423,665</u>	<u>2,405,872</u>	<u>4,770,705</u>	<u>38,600,242</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(25,546)</u>	<u>(2,405,872)</u>	<u>608,651</u>	<u>(1,822,767)</u>
Other Financing Sources (Uses)				
Proceeds from capital leases	-	563,154	-	563,154
Transfers in	15,149	637,022	20,000	672,171
Transfers out	(919,333)	-	(79,719)	(999,052)
Total Other Financing (Uses) Sources	<u>(904,184)</u>	<u>1,200,176</u>	<u>(59,719)</u>	<u>236,273</u>
Net Change in Fund Balances	(929,730)	(1,205,696)	548,932	(1,586,494)
Fund Balances - Beginning of year	4,171,111	944,153	2,170,908	7,286,172
Fund Balances - End of year	<u><u>\$ 3,241,381</u></u>	<u><u>\$ (261,543)</u></u>	<u><u>\$ 2,719,840</u></u>	<u><u>\$ 5,699,678</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, 2018**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (1,586,494)**

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	3,669,713	
Depreciation expense	(1,651,285)	

Net effect of reporting capital assets		2,018,428
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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 -

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	1,490,599	

Net effect of reporting long-term debt		1,490,599
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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. 36,662

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	(189,931)	
Pension expenses	(1,040,892)	
Other postemployment benefits	(1,755,129)	

Net effect of reporting long-term liabilities		(2,958,952)
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Change in Net Position of Governmental Activities **\$ (999,757)**

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2018

	Business-Type Activities			
	Water	Sewer	Transfer Station	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 401,370	\$ 1,387,745	\$ 15,504	\$ 1,804,619
Receivables (net):				
User charges	274,894	339,160	-	614,054
Betterments	-	370,316	-	370,316
Intergovernmental	52,407	182,056	-	234,463
Total current assets	728,671	2,279,277	15,504	3,023,452
Noncurrent assets:				
Receivables (net):				
Betterments	-	2,025,191	-	2,025,191
Intergovernmental	55,432	906,684	-	962,116
Land	16,385	10,350	-	26,735
Capital assets (net of depreciation)	7,546,707	9,895,247	-	17,441,954
Total noncurrent assets	7,618,524	12,837,472	-	20,455,996
Total Assets	8,347,195	15,116,749	15,504	23,479,448
Deferred Outflows of Resources:				
OPEB related items	4,673	24,614	8,389	37,676
Total Deferred Outflows of Resources	4,673	24,614	8,389	37,676
Liabilities				
Current liabilities:				
Warrants and accounts payable	85,003	84,319	10,192	179,514
Bonds anticipation notes payable	140,000	-	-	140,000
Capital lease payable	-	15,277	-	15,277
Bonds and notes payable	247,059	757,771	28,964	1,033,794
Total current liabilities	472,062	857,367	39,156	1,368,585
Noncurrent liabilities:				
Other postemployment benefits	91,634	482,179	164,291	738,104
Net pension liability	45,173	237,982	81,107	364,262
Bonds and notes payable	1,773,537	3,619,480	-	5,393,017
Total noncurrent liabilities	1,910,344	4,354,918	245,398	6,510,660
Total Liabilities	2,382,406	5,212,285	284,554	7,879,245
Deferred Inflows of Resources:				
Pension related items	4,611	24,291	8,279	37,181
OPEB related items	3,740	19,679	6,705	30,124
Total Deferred Inflows of Resources	8,351	43,970	14,984	67,305
Net Position				
Net Investment in capital assets	5,526,111	5,517,996	-	11,044,107
Unrestricted	435,000	4,382,389	(275,645)	4,541,744
Total Net Position	\$ 5,961,111	\$ 9,900,385	\$ (275,645)	\$ 15,585,851

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, 2018**

	Business-Type Activities			
	Water	Sewer	Transfer Station	Total
Operating Revenues:				
Charges for services	\$ 928,399	\$ 861,769	\$ 180,757	\$ 1,970,925
Other	62,992	67,629	7,150	137,771
Total Operating Revenues	991,391	929,398	187,907	2,108,696
Operating Expenses:				
Operating costs	768,879	981,936	193,835	1,944,650
Depreciation	248,284	319,058	-	567,342
Total Operating Expenses	1,017,163	1,300,994	193,835	2,511,992
Operating Income (Loss)	(25,772)	(371,596)	(5,928)	(403,296)
Nonoperating Revenues (Expenses):				
Intergovernmental	19,965	136,174	-	156,139
Interest expense	(64,623)	(193,470)	-	(258,093)
Total Nonoperating Revenues (Expenses)	(44,658)	(57,296)	-	(101,954)
Income (Loss) Before Capital Contributions and Transfers	(70,430)	(428,892)	(5,928)	(505,250)
Transfers				
Transfers (net)	98,573	214,140	14,168	326,881
Change in Net Position	28,143	(214,752)	8,240	(178,369)
Total Net Position - Beginning of Year	5,932,968	10,115,137	(283,885)	15,764,220
Total Net Position - End of Year	<u><u>\$ 5,961,111</u></u>	<u><u>\$ 9,900,385</u></u>	<u><u>\$ (275,645)</u></u>	<u><u>\$ 15,585,851</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	Business-Type Activities			
	Water	Sewer	Transfer Station	Total
Cash Flows from Operating Activities:				
Receipts from users	\$ 929,758	\$ 868,124	\$ 180,757	\$ 1,978,639
Other income	62,992	67,629	7,150	137,771
Payments to employees	(176,285)	(194,328)	(44,731)	(415,344)
Payments to vendors	(554,321)	(733,990)	(141,840)	(1,430,151)
Net Cash Provided by (Used in) Operating Activities	262,144	7,435	1,336	270,915
Cash Flows from Noncapital Financing Activities:				
Transfers, net	98,573	214,140	14,168	326,881
Net Cash Provided by (Used in) Noncapital Financing Activities	98,573	214,140	14,168	326,881
Cash Flows from Capital and Related Financing Activities:				
Payments of capital leases		(15,549)		(15,549)
Acquisition and construction of capital assets	(178,984)	(51,306)		(230,290)
Proceeds from capital betterments	-	370,316	-	370,316
Proceeds from capital grants	69,653	315,021	-	384,674
Principal payments on bonds and notes	(236,679)	(739,840)	-	(976,519)
Interest expense	(64,623)	(193,470)	-	(258,093)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(410,633)	(314,828)	-	(725,461)
Net Change in Cash and Cash Equivalents	(49,916)	(93,253)	15,504	(127,665)
Cash and Cash Equivalents				
Beginning of the year	451,286	1,480,998	-	1,932,284
End of the year	<u><u>\$ 401,370</u></u>	<u><u>\$ 1,387,745</u></u>	<u><u>\$ 15,504</u></u>	<u><u>\$ 1,804,619</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	\$ (25,772)	\$ (371,596)	\$ (5,928)	\$ (403,296)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	248,284	319,058	-	567,342
Changes in assets, deferred outflows, liabilities and deferred inflows				
Receivables (net)	1,359	6,355	-	7,714
Deferred outflows of resources	3,407	17,952	6,118	27,477
Deferred inflows of resources	7,637	41,169	13,695	62,501
Liabilities (net)	27,229	(5,503)	(12,549)	9,177
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 262,144</u></u>	<u><u>\$ 7,435</u></u>	<u><u>\$ 1,336</u></u>	<u><u>\$ 270,915</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2018

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 578,661
Investments	443,255	-
Total Assets	<u>443,255</u>	<u>578,661</u>
Liabilities		
Warrants payable	-	273,274
Agency liabilities	-	305,387
Total Liabilities	<u>-</u>	<u>578,661</u>
Net Position		
Held in trust for other purposes	443,255	-
Total Net Position	<u><u>\$ 443,255</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income	\$ 328
Contributions	<u>14,051</u>
Total Additions	<u>14,379</u>
Deductions:	
Education - scholarships	<u>18,150</u>
Total Deductions	<u>18,150</u>
Change in Net Position	(3,771)
Total Net Position - Beginning	<u>447,026</u>
Total Net Position - Ending	<u><u>\$ 443,255</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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, 2018.

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 the 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.

As a result of positive operations in fiscal years 2016 through 2018 the Town was able to accelerate payments on these outstanding notes and as of June 30, 2018 the remaining outstanding balance is \$611,990. This is scheduled to be paid off in full on March 1, 2019.

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.

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 \$1,102,515 at June 30, 2018, 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 \$601,025 at June 30, 2018, and, is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity 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 \$106,801 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	\$ -	\$ -	\$ 337,709	\$ 337,709
Restricted:				
General government	-	-	155,170	155,170
Public safety	-	-	147,080	147,080
Education	-	-	1,247,043	1,247,043
Public works	-	-	47,007	47,007
Health and human services	-	-	337,188	337,188
Culture and recreation	-	-	219,864	219,864
Infrastructure improvements	601,025	-	-	601,025
Capital outlay	-	-	-	-
Debt service	68,063	-	-	68,063
Supplemental reserve fund	-	-	-	-
Other purposes	-	-	228,779	228,779
Assigned:				
Purchase orders	106,801	-	-	106,801
Unassigned:				
General stabilization	1,102,515	-	-	1,102,515
Other	1,362,977	(261,543)	-	1,101,434
	<u>\$ 3,241,381</u>	<u>\$ (261,543)</u>	<u>\$ 2,719,840</u>	<u>\$ 5,699,678</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 \$261,543 in its capital projects fund. The deficits are expected to be funded at a future date through a bond offering.

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 \$7,459,125 and the banks' balances totaled \$7,632,181. Of the amount held by banks \$5,294,970, 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, \$1,397,423 in U.S. government obligations; \$654,150 of corporate fixed income obligations, \$294,050 in marketable certificates of deposit; \$4,836 in money market mutual funds; and \$316,300 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, 2018:

		Fair Value Measurements Using		
	6/30/18	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. government agency and Treasury bonds	\$ 1,397,423	\$ 1,397,423	\$ -	\$ -
Certificates of deposit	294,050	294,050	-	-
Corporate bonds	654,150	-	654,150	-
Total debt securities	2,345,623	1,691,473	654,150	-
Equity securities:				
Common stock	316,300	316,300	-	-
Total equity securities	316,300	316,300	-	-
Total investments by fair value level	\$ 2,661,923	\$ 2,007,773	\$ 654,150	\$ -
Investments measured at amortized cost				
MMDT	19,309			
Total investments	\$ 2,681,232			

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, 2018, the Town’s investments had the following maturities:

Investment Type	6/30/18	Maturities in Years		
		Less than 1	1 - 5	More than 5
U.S. Government obligations	\$ 1,397,423	\$ 334,258	\$ 1,063,165	\$ -
Corporate bonds	654,150	-	654,150	-
Certificates of deposit	294,050	200,766	93,284	-
MMDT	19,309	19,309	-	-
Total investments with maturities	<u>\$ 2,364,932</u>	<u>\$ 554,333</u>	<u>\$ 1,810,599</u>	<u>\$ -</u>
<u>Other investments:</u>				
Equities	316,300			
Total Town investments	<u>\$ 2,681,232</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, 2018, 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	\$ -	\$ 1,397,423	\$ -	\$ -	\$ 1,397,423
A2	105,273	-	-	-	105,273
A3	188,224	-	-	-	188,224
Baa1	222,934	-	-	-	222,934
Baa2	137,719	-	-	-	137,719
Not Rated	-	-	294,050	19,309	313,359
Total - All	<u>\$ 654,150</u>	<u>\$ 1,397,423</u>	<u>\$ 294,050</u>	<u>\$ 19,309</u>	<u>\$ 2,364,932</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, 2018, 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	\$ 425,999	\$ -	\$ 425,999
Tax liens	1,622,775	-	1,622,775
Motor vehicle excise	290,087	-	290,087
Septic loans	13,486	-	13,486
Departmental and other	509,727	(304,101)	205,626
Tax foreclosures	192,727	-	192,727
Intergovernmental:			
Due from MCWT	77,128	-	77,128
Due from Commonwealth of MA	333,555	-	333,555
Total Governmental Receivables	<u>\$ 3,465,484</u>	<u>\$ (304,101)</u>	<u>\$ 3,161,383</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	\$ 274,894	\$ -	\$ 274,894
User fees - sewer	291,134	-	291,134
Betterments - sewer	2,443,533	-	2,443,533
Intergovernmental:			
Due from MCWT - water	107,839	-	107,839
Due from MCWT - sewer	1,088,740	-	1,088,740
Total Enterprise Receivables	<u>\$ 4,206,140</u>	<u>\$ -</u>	<u>\$ 4,206,140</u>

Betterments – Unapportioned sewer betterments of \$2,443,533 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 \$1,238,046 and interest in the amount of \$386,999 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$41,467; \$107,839 and \$1,088,740 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	\$ 425,999	\$ -	\$ 425,999
Tax liens and deferrals	1,622,775	-	1,622,775
Tax foreclosures	192,727	-	192,727
Motor vehicle and other excise taxes	290,087	-	290,087
Ambulance fees	205,626	-	205,626
Intergovernmental	41,468	-	41,468
Other	-	13,486	13,486
Total	<u>\$ 2,778,682</u>	<u>\$ 13,486</u>	<u>\$ 2,792,168</u>

C. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In						Total
	General Fund	Capital Projects Funds	Nonmajor Funds	Water Enterprise	Sewer Enterprise	Transfer Station	
General Fund	\$ -	\$ 572,452	\$ 20,000	\$ 98,573	\$ 214,140	\$ 14,168	\$ 919,333 (1)
Nonmajor Funds	15,149	64,570	-	-	-	-	79,719 (2)
	<u>\$ 15,149</u>	<u>\$ 637,022</u>	<u>\$ 20,000</u>	<u>\$ 98,573</u>	<u>\$ 214,140</u>	<u>\$ 14,168</u>	<u>\$ 999,052</u>

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

(2) Transfers to capital projects to subsidize capital and close Special Revenue deficits.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,853,761	\$ -	\$ -	\$ 1,853,761
Construction in progress	218,800	34,570	-	253,370
Total capital assets not being depreciated	2,072,561	34,570	-	2,107,131
Capital assets being depreciated:				
Buildings and improvements	31,375,106	1,554,986	-	32,930,092
Infrastructure	8,680,033	1,120,030	-	9,800,063
Machinery, equipment and vehicles	12,242,835	960,126	-	13,202,961
Artwork	100,000	-	-	100,000
Total capital assets being depreciated	52,397,974	3,635,142	-	56,033,116
Less accumulated depreciation for:				
Buildings and improvements	(18,205,788)	(791,836)	-	(18,997,624)
Infrastructure	(1,657,892)	(250,941)	-	(1,908,833)
Machinery, equipment and vehicles	(10,108,285)	(608,508)	-	(10,716,793)
Total accumulated depreciation	(29,971,965)	(1,651,285)	-	(31,623,250)
Total capital assets being depreciated, net	22,426,009	1,983,857	-	24,409,866
Governmental activities capital assets, net	<u>\$ 24,498,570</u>	<u>\$ 2,018,427</u>	<u>\$ -</u>	<u>\$ 26,516,997</u>
<u><i>Business Activities:</i></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	230,290	-	23,309,309
Machinery, equipment and vehicles	639,288	-	-	639,288
Total capital assets being depreciated	26,250,747	230,290	-	26,481,037
Less accumulated depreciation for:				
Buildings and improvements	(1,512,862)	(55,026)	-	(1,567,888)
Infrastructure	(6,675,911)	(466,567)	-	(7,142,478)
Machinery, equipment and vehicles	(282,968)	(45,748)	-	(328,716)
Total accumulated depreciation	(8,471,741)	(567,341)	-	(9,039,082)
Total capital assets being depreciated, net	17,779,006	(337,051)	-	17,441,955
Business activities capital assets, net	<u>\$ 17,805,741</u>	<u>\$ (337,051)</u>	<u>\$ -</u>	<u>\$ 17,468,690</u>

	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	178,984	-	8,567,128
Machinery, equipment and vehicles	556,867	-	-	556,867
Total capital assets being depreciated	11,155,737	178,984	-	11,334,721
Less accumulated depreciation for:				
Buildings and improvements	(1,341,280)	(44,302)	-	(1,385,582)
Infrastructure	(1,954,773)	(165,753)	-	(2,120,526)
Machinery, equipment and vehicles	(243,677)	(38,228)	-	(281,905)
Total accumulated depreciation	(3,539,730)	(248,283)	-	(3,788,013)
Total capital assets being depreciated, net	7,616,007	(69,299)	-	7,546,708
Water activities capital assets, net	<u>\$ 7,632,392</u>	<u>\$ (69,299)</u>	<u>\$ -</u>	<u>\$ 7,563,093</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	51,306	-	14,742,181
Machinery, equipment and vehicles	82,421	-	-	82,421
Total capital assets being depreciated	15,095,010	51,306	-	15,146,316
Less accumulated depreciation for:				
Buildings and improvements	(171,582)	(10,724)	-	(182,306)
Infrastructure	(4,721,138)	(300,814)	-	(5,021,952)
Machinery, equipment and vehicles	(39,291)	(7,520)	-	(46,811)
Total accumulated depreciation	(4,932,011)	(319,058)	-	(5,251,069)
Total capital assets being depreciated, net	10,162,999	(267,752)	-	9,895,247
Sewer activities capital assets, net	<u>\$ 10,173,349</u>	<u>\$ (267,752)</u>	<u>\$ -</u>	<u>\$ 9,905,597</u>
<u><i>Business-Type Activities - All:</i></u>				
Business-type activities capital assets, net	<u>\$ 17,805,741</u>	<u>\$ (337,051)</u>	<u>\$ -</u>	<u>\$ 17,468,690</u>

For the year ended June 30, 2018, depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>	
General government	\$ 85,297	Water	\$ 248,283
Public safety	365,236	Sewer	319,058
Education	761,571	Total Business-Type Activities	<u>\$ 567,341</u>
Public works	324,637		
Health and human services	59,552		
Culture and recreation	54,992		
Total Governmental Activities	<u>\$ 1,651,285</u>		

E. Capital Leases

The Town has entered into certain non-cancelable leases for vehicles and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

Assets placed in service through capital lease financing are as follows:

	<u>Amount</u>
<i>Asset:</i>	
Fire Truck	\$ 337,125
Dump Truck	226,029
Ford F-350	45,867
Less: accumulated depreciation	(37,986)
Total	<u>\$ 571,035</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2019	\$ 183,930
2020	\$ 167,889
2021	90,161
Total minimum lease payments	441,980
Less: amounts representing interest	(22,235)
Present value of minimum lease payments	<u>\$ 419,745</u>

Of the above outstanding amount, \$404,469 relates to governmental activities and \$15,276 relate to business-type activities.

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, 2018, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	2.00%	06/21/19	\$ 496,000	\$ 496,000	\$ (496,000)	\$ 496,000
BAN	2.00%	06/21/19	479,700	230,823	(479,700)	230,823
BAN	1.65%	03/01/19	1,734,548	-	(1,122,558)	611,990
Less Deficit Notes			(2,214,248)	-	1,602,258	(611,990)
Total Governmental Notes			496,000	726,823	(496,000)	726,823
BAN	2.00%	06/21/19	140,000	140,000	(140,000)	140,000
Total Business-Type Notes			140,000	140,000	(140,000)	140,000
Total Notes Payable			\$ 636,000	\$ 866,823	\$ (636,000)	\$ 866,823

\$611,990 of the above temporary notes outstanding at year-end were issued for the deficit borrowing described previously. 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 were for street lights (\$230,823), library construction (\$496,000) and water infrastructure (\$140,000).

The deficit note activity is reflected as a long-term obligation under governmental activities.

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	\$ 3,621,087	\$ -	\$ (292,810)	\$ 3,328,277	\$ 292,809
Deficit notes	2,185,284	-	(1,602,258)	583,026	583,026
Capital lease obligations	-	563,154	(158,685)	404,469	168,653
Compensated absences	729,384	372,277	(182,346)	919,315	229,829
Landfill post-closure monitoring	378,000	-	(27,000)	351,000	27,000
Net pension liability	22,387,731	-	(2,218,618)	20,169,113	-
Other postemployment benefits	40,788,822	1,048,490	(961,648)	40,875,664	-
Total Governmental Activities	<u>\$ 70,090,308</u>	<u>\$ 1,983,921</u>	<u>\$ (5,443,365)</u>	<u>\$ 66,630,864</u>	<u>\$ 1,301,317</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds	\$ 2,257,275	\$ -	\$ (236,679)	\$ 2,020,596	\$ 247,059
Net pension liability	50,143	-	(4,970)	45,173	-
Other postemployment benefits	91,439	2,351	(2,156)	91,634	-
Total Water Enterprise	<u>2,398,857</u>	<u>2,351</u>	<u>(243,805)</u>	<u>2,157,403</u>	<u>247,059</u>
<u>Sewer</u>					
General obligation bonds	5,117,091	-	(739,840)	4,377,251	757,771
Capital lease obligation	29,826	-	(14,549)	15,277	15,277
Net pension liability	264,160	-	(26,178)	237,982	-
Other postemployment benefits	481,154	12,369	(11,344)	482,179	-
Total Sewer Enterprise	<u>5,892,231</u>	<u>12,369</u>	<u>(791,911)</u>	<u>5,112,689</u>	<u>773,048</u>
<u>Transfer Station</u>					
Deficit Notes	28,964	28,964	(28,964)	28,964	28,964
Net pension liability	90,029	-	(8,922)	81,107	-
Other postemployment benefits	163,942	4,214	(3,865)	164,291	-
Total Transfer Station Enterprise	<u>282,935</u>	<u>33,178</u>	<u>(41,751)</u>	<u>274,362</u>	<u>28,964</u>
Total Business-type Activities	<u>\$ 8,574,023</u>	<u>\$ 47,898</u>	<u>\$ (1,077,467)</u>	<u>\$ 7,544,454</u>	<u>\$ 1,049,071</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, 2018:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i><u>Governmental Activities:</u></i>					
General obligation bonds	2.00 - 4.00%	\$ 3,380,000	\$ -	\$ (215,000)	\$ 3,165,000
MCWT notes	0.00 - 2.00%	241,087	-	(77,810)	163,277
Total Governmental Activities		<u>\$ 3,621,087</u>	<u>\$ -</u>	<u>\$ (292,810)</u>	<u>\$ 3,328,277</u>
<i><u>Business-type Activities - Water:</u></i>					
USDA bond notes	2.25 - 3.25%	\$ 1,673,792	\$ -	\$ (49,706)	\$ 1,624,086
MCWT notes	1.50 - 2.00%	583,483	-	(186,973)	396,510
Total Water		<u>2,257,275</u>	<u>-</u>	<u>(236,679)</u>	<u>2,020,596</u>
<i><u>Business-type Activities - Sewer:</u></i>					
USDA bond notes	4.75%	119,001	-	(6,180)	112,821
MCWT notes	1.50 - 2.00%	4,998,090	-	(733,660)	4,264,430
Total Sewer		<u>5,117,091</u>	<u>-</u>	<u>(739,840)</u>	<u>4,377,251</u>
 Total Business-type Activities		<u>\$ 7,374,366</u>	<u>\$ -</u>	<u>\$ (976,519)</u>	<u>\$ 6,397,847</u>

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	
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	215,000	-	215,000	63,507	-	63,507	278,507
2024-2028	1,075,000	-	1,075,000	220,379	-	220,379	1,295,379
2029-2033	1,015,000	-	1,015,000	75,225	-	75,225	1,090,225
Totals	<u>\$ 3,328,277</u>	<u>\$ (41,467)</u>	<u>\$ 3,286,810</u>	<u>\$ 697,905</u>	<u>\$ (8,981)</u>	<u>\$ 688,924</u>	<u>\$ 3,975,734</u>
<i>Business-Type Activities - Water:</i>							
Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	56,871	-	56,871	34,663	-	34,663	91,534
2024-2028	308,604	-	308,604	149,066	-	149,066	457,670
2029-2033	284,893	-	284,893	105,235	-	105,235	390,128
2034-2038	194,887	-	194,887	77,033	-	77,033	271,920
2039-2043	217,820	-	217,820	54,100	-	54,100	271,920
2044-2048	243,453	-	243,453	28,468	-	28,468	271,921
2049-2053	104,803	-	104,803	3,545	-	3,545	108,348
Totals	<u>\$ 2,020,596</u>	<u>\$ (107,839)</u>	<u>\$ 1,912,757</u>	<u>\$ 625,012</u>	<u>\$ (19,521)</u>	<u>\$ 605,491</u>	<u>\$ 2,518,248</u>

Business-Type Activities - Sewer:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	840,821	(221,936)	618,885	29,469	(25,431)	4,038	622,923
2024-2028	331,736	(69,523)	262,213	14,274	-	14,274	276,487
2029-2033	32,336	-	32,336	3,117	-	3,117	35,453
Totals	<u>\$ 4,377,251</u>	<u>\$ (1,088,740)</u>	<u>\$ 3,288,511</u>	<u>\$ 503,375</u>	<u>\$ (358,497)</u>	<u>\$ 144,878</u>	<u>\$ 3,433,389</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 \$1,238,046 and interest in the amount of \$386,999 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2018, 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, 2017 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, 2017 was as follows:

Retirees and beneficiaries currently receiving benefits	3,723
Active plan members	7,601
Inactive plan members	<u>1,653</u>
Total	<u>12,977</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 2017.

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 \$1,274,147 to the System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 22.8% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$20,533,375 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, 2017. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 2.5% at December 31, 2017, which was lower (2.8%) with the proportion measured at January 1, 2016. The difference will be reflected through a deferred inflow for the proportionate share difference and amortized to expense over approximately 5 years.

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, 2017, 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 \$2,333,838 in pension expense in the statement of activities in fiscal year 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 640,235
Changes of assumptions	1,956,770	-
Difference between expected and actual experience	136,596	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	30,359	1,455,671
	-	-
Total	<u>\$ 2,123,725</u>	<u>\$ 2,095,906</u>

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

<u>Year ended June 30,</u>	
2019	\$ 5,564
2020	5,564
2021	5,564
2022	5,564
2023	5,564
Total	<u>\$ 27,819</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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	40 %	4.01 %
Fixed income	22 %	2.04 %
Private equity	11 %	6.50 %
Real estate	10 %	3.70 %
Timber/natural resources	4 %	3.25 %
Hedge funds	13 %	3.40 %

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 <u>(6.75%)</u>	Current Discount <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Town’s proportionate share of the net pension liability	\$ 25,028,290	\$ 20,533,375	\$ 16,739,523

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, 2018, the Commonwealth contributed \$1,597,276 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 0.12928%, 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 <u>Portion</u>	Paid (or assumed) On Behalf <u>of the Town</u>	Town <u>Portion</u>
Net pension liability	\$ 29,586,271	\$ (29,586,271)	\$ —
Pension expense	3,088,005	(3,088,005)	—

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)

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

The Town, however, has not met all requirements under GASB 74 to present this arrangement as a plan and thus the plan does not qualify as a plan under generally accepted accounting principles. Therefore GASB 74 does not apply. The following disclosures include only those disclosures required under GASB 75. This is the initial year of implementation.

An employee hired before April 2, 2012 shall become eligible to retire under this plan upon the completion of 10 years of creditable service and the attainment of age 55 as an active member with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon the attainment of age 60 with 10 years of creditable service.

Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town’s premium-based insurance programs, and these include comprehensive medical and dental insurance as well as group life insurance.

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

Active employees	259
Inactives currently receiving benefits	<u>118</u>
Total	<u><u>377</u></u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contributed 50% of the set premium for medical, dental and life insurance during fiscal 2018. The remainder of the cost is funded from taxation.

The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the OPEB Plan are paid by the Town.

For the year ended June 30, 2018, the Town’s average contribution rate was 6.5% of covered-employee payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 41,525,357	\$ -	\$ 41,525,357
Changes for the year:			
Service cost	1,576,479	-	1,576,479
Interest	1,525,676	-	1,525,676
Changes in assumptions	(2,034,732)	-	(2,034,732)
Benefit payments	(979,013)	-	(979,013)
Net changes	88,410	-	88,410
Balances at June 30, 2018	\$ 41,613,767	\$ -	\$ 41,613,767

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

Investment rate of return	Not applicable; pay as you go plan
Municipal bond rate	3.87% as of June 30, 2018
Single Equivalent Discount Rate	3.87% net of OPEB plan investment expense including inflation.
Inflation	2.5% annually as of June 30, 2018 and for future periods.
Health Care Trend Rate	8.5%; trending down to 5.0% by 2024
Salary Increases	3.00% annually as of June 30, 2018 and for future periods.
Mortality	For healthy participants: the mortality are from the RP-2000 combined mortality table projected on a generational basis with projection scale AA.
Disabled Mortality	For disabled participants: the mortality rates are from the RP-2000 combined mortality table set forward 3 years for males.
Actuarial Cost Method	Entry age normal

Key Changes in Assumptions – The key assumption change was the increase of the discount rate from 3.58% at June 30, 2017 to 3.87% at June 30, 2018.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.87% which was based on the Bond Buyer's 20 bond index.

Sensitivity Analyses – The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	1% decrease 2.87%	Discount Rate 3.87%	1% increase 4.87%
Net OPEB Liability	\$ 49,259,183	\$ 41,613,767	\$ 35,549,637

	1% decrease 7.5% to 4.0%	Healthcare cost rate 8.5% to 5.0%	1% increase 9.5% to 6.0%
Net OPEB Liability	\$ 34,450,600	\$ 41,613,767	\$ 50,962,317

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Town recognized OPEB expense of \$2,765,835. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 1,698,412
	\$ -	\$ 1,698,412

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

June 30,	
2019	\$ 336,320
2020	336,320
2021	336,320
2022	336,320
2023	336,320
thereafter	16,812
	<u>\$ 1,698,412</u>

Net OPEB Liability – The components of the net OPEB liability of the Town at June 30, 2018 were as follows:

Total OPEB Liability	\$ 41,613,767
Plan fiduciary net position	<u>-</u>
Net OPEB liability	<u>\$ 41,613,767</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%

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, 2018.

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018.

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

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

Future Implementations –

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

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

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

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

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

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

IV. Economic Dependence

During the year ended June 30, 2018, approximately 54% of revenues of the general fund were recognized from the Commonwealth of Massachusetts, as well as, the federal government.

V. Restatement

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

The impact is illustrated in the table below:

	Governmental	Water	Sewer	Transfer Station
Net position at June 30, 2017, as reported	\$ (7,457,862)	\$ 5,988,574	\$ 10,407,753	\$ (184,190)
Eliminate previously recorded OPEB obligation	15,983,460	35,833	188,538	64,247
Record net OPEB liability	(40,788,822)	(91,443)	(481,137)	(163,955)
Net position at June 30, 2017, as restated	<u>\$ (32,263,224)</u>	<u>\$ 5,932,964</u>	<u>\$ 10,115,154</u>	<u>\$ (283,898)</u>

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

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

	Year Ended June 30,			
	2018	2017	2016	2015
Town's proportion of the net pension liability (asset)	2.518111%	2.721136%	2.714029%	2.806321%
Town's proportionate share of the net pension liability (asset)	\$ 20,533,375	\$ 22,792,062	\$ 19,264,364	\$ 16,699,512
Town's covered-employee payroll	\$ 5,598,659	\$ 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	366.8%	405.0%	313.5%	282.6%
Plan fiduciary net position as a percentage of the total pension liability	42.00%	42.00%	44.52%	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

	Year Ended June 30,			
	2018	2017	2016	2015
Actuarially determined contribution	1,274,147	\$ 1,321,787	\$ 1,220,934	\$ 1,109,031
Contributions in relation to the actuarially determined contribution	1,274,147	1,321,787	1,220,934	1,109,031
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	5,598,659	\$ 5,627,632	\$ 6,145,760	\$ 5,909,385
Contributions as a percentage of covered-employee payroll	22.8%	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, 2018

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS' TEACHER'S RETIREMENT SYSTEM
(In thousands)

	Year Ended June 30,			
	2017	2016	2015	2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,235,515	\$ 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

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

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Postive
	Budget	Budget	Amounts		Adjusted	(Negative)
Revenues:						
Property taxes	\$ 11,669,777	\$ 11,669,777	\$ 11,695,752		\$ 11,695,752	\$ 25,975
Intergovernmental	13,786,319	13,786,319	13,702,563		13,702,563	(83,756)
Motor vehicle and other excise	1,241,500	1,241,500	1,297,518		1,297,518	56,018
Departmental and other revenue	863,210	863,210	991,459		991,459	128,249
Licenses and permits	204,600	204,600	265,962		265,962	61,362
Fines and forfeitures	19,500	19,500	22,871		22,871	3,371
Penalties and interest on taxes	284,000	284,000	263,686		263,686	(20,314)
Investment income	6,795	6,795	20,219		20,219	13,424
Total Revenues	28,075,701	28,075,701	28,260,030		28,260,030	184,329
Expenditures:						
General government	1,990,667	1,928,053	1,637,197	\$ 67,726	1,704,923	223,130
Public safety	2,712,758	2,722,925	2,672,339	10,429	2,682,768	40,157
Education	15,551,762	15,595,580	15,528,167	24,829	15,552,996	42,584
Public works	1,160,390	1,307,940	1,280,079	100	1,280,179	27,761
Health and human services	704,676	708,731	656,551	3,717	660,268	48,463
Culture and recreation	200,803	201,388	191,622	-	191,622	9,766
Pension and fringe benefits	3,736,300	3,676,851	3,430,518	-	3,430,518	246,333
State and county tax assessments	1,474,400	1,474,400	1,260,188	-	1,260,188	214,212
Debt service	1,441,457	2,264,015	2,260,915	-	2,260,915	3,100
Total Expenditures	28,973,213	29,879,883	28,917,576	106,801	29,024,377	855,506
Other Financing Sources (Uses):						
Transfers in	473,180	473,180	464,249		464,249	(8,931)
Transfers out	(262,167)	(714,327)	(686,620)		(686,620)	27,707
Total Other Financing Sources (Uses)	211,013	(241,147)	(222,371)		(222,371)	18,776
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(686,499)</u>	<u>(2,045,329)</u>	<u>\$ (879,917)</u>		<u>\$ (986,718)</u>	<u>\$ 1,058,611</u>
Other Budgetary Items:						
Prior year encumbrances	141,903	141,903				
Undesignated surplus (free cash)	553,029	1,905,859				
Other	1,134	7,134				
Amortization of reserve	(9,567)	(9,567)				
Total other budgetary items	686,499	2,045,329				
NET BUDGET	<u>\$ -</u>	<u>\$ -</u>				

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, 2018

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 2018, 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, 2018, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 28,260,030
MTRS on-behalf payments	\$ 3,088,005	\$ -	3,088,005
MCWT debt subsidies	28,499	-	28,499
Revenue recognition	-	-	-
Stabilization investment income	-	21,585	21,585
Revenues on a GAAP basis	<u>\$ 3,116,504</u>	<u>\$ 21,585</u>	<u>\$ 31,398,119</u>
Expenditures on a budgetary basis			\$ 28,917,576
MTRS on-behalf payments	\$ 3,088,005	\$ -	3,088,005
MCWT debt subsidies	28,499	-	28,499
Debt payments transferred to water	-	(18,573)	(18,573)
Debt payments transferred to sewer	-	(214,140)	(214,140)
Indirect cost accounting treatment	(377,701)	-	(377,701)
Expenditures on a GAAP basis	<u>\$ 2,738,803</u>	<u>\$ (232,713)</u>	<u>\$ 31,423,666</u>
Net transfers on a budgetary basis			\$ (222,371)
Stabilization transfers	\$ -	\$ (71,399)	(71,399)
Debt payments transferred to water	-	(18,573)	(18,573)
Debt payments transferred to sewer	-	(214,140)	(214,140)
Indirect cost accounting treatment	(377,701)	-	(377,701)
Net transfers on a GAAP basis	<u>\$ (377,701)</u>	<u>\$ (304,112)</u>	<u>\$ (904,184)</u>