

TOWN OF TOWNSEND, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

TOWN OF TOWNSEND, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Townsend, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Townsend, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Townsend, Massachusetts as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of OPEB Funding Progress, and the Pension and OPEB schedules appearing on pages 52 to 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

May 1, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other required 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 our finances in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the Town'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 that are principally supported by taxes and intergovernmental revenues (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 include general government, public safety, education, public works, sanitation, health and human services, culture and recreation, interest, and intergovernmental. The business-type activities include water 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources 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 Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the Town, or to other governments, on a cost-reimbursement basis. The Town uses one enterprise fund to account for water operations, which is considered to be a major fund.

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

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$31,876,863 (i.e., net position), a change of \$403,634 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,023,906, a change of \$455,753 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,163,947, a change of \$(68,409) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years:

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets						
Current and other assets	\$ 7,879,776	\$ 7,260,580	\$ 2,216,919	\$ 2,082,690	\$ 10,096,695	\$ 9,343,270
Capital assets	<u>29,587,476</u>	<u>29,702,782</u>	<u>4,296,164</u>	<u>3,855,918</u>	<u>33,883,640</u>	<u>33,558,700</u>
Total assets	37,467,252	36,963,362	6,513,083	5,938,608	43,980,335	42,901,970
Deferred outflows of resources	1,632,650	570,604	125,156	43,741	1,757,806	614,345
Liabilities						
Long-term liabilities	10,419,254	9,141,978	1,630,681	1,613,442	12,049,935	10,755,420
Other liabilities	<u>1,482,326</u>	<u>1,234,735</u>	<u>328,523</u>	<u>52,931</u>	<u>1,810,849</u>	<u>1,287,666</u>
Total liabilities	11,901,580	10,376,713	1,959,204	1,666,373	13,860,784	12,043,086
Deferred inflows of resources	459	-	35	-	494	-
Net position						
Net investment in capital assets	27,385,730	27,262,748	3,453,773	2,848,757	30,839,503	30,111,505
Restricted	2,786,854	2,009,331	-	-	2,786,854	2,009,331
Unrestricted	<u>(2,974,721)</u>	<u>(2,114,826)</u>	<u>1,225,227</u>	<u>1,467,219</u>	<u>(1,749,494)</u>	<u>(647,607)</u>
Total net position	<u>\$ 27,197,863</u>	<u>\$ 27,157,253</u>	<u>\$ 4,679,000</u>	<u>\$ 4,315,976</u>	<u>\$ 31,876,863</u>	<u>\$ 31,473,229</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$31,876,863, a change of \$403,634 from the prior year.

The largest portion of net position, \$30,839,503, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any

related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that 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 net position, \$2,786,854, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(1,749,494), primarily resulting from the Town's net pension liability.

The following is a summary of condensed government-wide statement of changes in net position financial data for the current and prior fiscal years:

	CHANGES IN NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,350,142	\$ 1,208,621	\$ 1,168,967	\$ 1,072,761	\$ 2,519,109	\$ 2,281,382
Operating grants and contributions	365,987	210,720	-	-	365,987	210,720
Capital grants and contributions	585,304	739,117	-	-	585,304	739,117
General revenues:						
Property taxes	16,133,520	15,373,965	-	-	16,133,520	15,373,965
Excises	1,248,845	1,223,480	-	-	1,248,845	1,223,480
Penalties and interest on taxes	319,891	361,450	-	-	319,891	361,450
Grants and contributions not restricted to specific programs	1,496,494	1,429,780	-	-	1,496,494	1,429,780
Investment income	54,650	50,379	11,835	2,921	66,485	53,300
Other	40,488	15,404	-	-	40,488	15,404
Total revenues	21,595,321	20,612,916	1,180,802	1,075,682	22,776,123	21,688,598
Expenses						
General government	2,539,555	2,262,840	-	-	2,539,555	2,262,840
Public safety	4,709,813	4,527,832	-	-	4,709,813	4,527,832
Education	10,888,235	10,568,934	-	-	10,888,235	10,568,934
Public works	1,688,150	1,542,237	-	-	1,688,150	1,542,237
Sanitation	649,175	636,862	-	-	649,175	636,862
Health and human services	410,230	413,003	-	-	410,230	413,003
Culture and recreation	499,945	466,701	-	-	499,945	466,701
Interest on long-term debt	77,070	70,490	-	-	77,070	70,490
Intergovernmental	70,434	71,063	-	-	70,434	71,063
Water operations	-	-	839,882	706,546	839,882	706,546
Total expenses	21,532,607	20,559,962	839,882	706,546	22,372,489	21,266,508
Change in net position before transfers	62,714	52,954	340,920	369,136	403,634	422,090
Transfers in (out)	(22,104)	(10,537)	22,104	10,537	-	-
Change in net position	40,610	42,417	363,024	379,673	403,634	422,090
Net position - beginning of year	27,157,253	27,114,836	4,315,976	3,936,303	31,473,229	31,051,139
Net position - end of year	\$ 27,197,863	\$ 27,157,253	\$ 4,679,000	\$ 4,315,976	\$ 31,876,863	\$ 31,473,229

Governmental activities. Governmental activities for the year resulted in a change in net position of \$40,610. Key elements of this change are as follows:

General fund operations	\$ 245,576
Stabilization account activity	<u>(154,389)</u>
Subtotal general fund	91,187
Excess of current year depreciation expense over debt service principal payments	(734,159)
Capital assets funded by sources other than long-term debt including capital lease	898,593
Other	<u>(215,011)</u>
Total	<u>\$ 40,610</u>

Business-type activities. Business-type activities (water fund) for the year resulted in a change in net position of \$363,024. The change in net position for business-type activities is largely attributable to the reporting of acquisition of capital outlay (capital assets). Business-type activities reported net investment in capital assets of \$3,453,773, an increase of \$605,016, over the prior year.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,023,906, a change of \$455,753 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 245,576
Stabilization account activity	<u>(154,389)</u>
Subtotal general fund	91,187
Ambulance fund fees exceeding appropriations	120,123
Other nonmajor funds revenues and transfers in exceeding expenditures and transfers out	<u>244,443</u>
Total	<u>\$ 455,753</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,163,947, while total fund balance was \$3,334,822. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,163,947	\$ 2,232,356	\$ (68,409)	10.7%
Total fund balance	\$ 3,334,822	\$ 3,243,635	\$ 91,187	16.5%

The decrease in the Town's June 30, 2017 unassigned fund balance from the prior year is largely due to the Town's use of free cash for capital stabilization funding, funding of the prior year snow and ice deficit, debt service, and for various capital improvements.

The total fund balance of the general fund changed by \$91,187 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (1,014,511)
Revenues in excess of budget	302,501
Expenditures less than budget	427,956
Change in stabilization accounts	(154,389)
Current year encumbrances and special articles in excess of prior year	527,957
Funding prior year deficits	<u>1,673</u>
Total	<u>\$ 91,187</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 1,241,345	\$ 1,221,248	\$ 20,097
Capital stabilization	<u>124,162</u>	<u>298,648</u>	<u>(174,486)</u>
Total	<u>\$ 1,365,507</u>	<u>\$ 1,519,896</u>	<u>\$ (154,389)</u>

The decrease in the Town's June 30, 2017 stabilization fund balances from the prior year is due to the use of stabilization funds for the following:

- \$132,780 to defray the cost of debt service
- \$244,950 for capital improvements

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,225,227, a change of \$(241,992) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$933,242.

Significant budget increases were for the following purposes:

- \$676,850 for capital improvements
- \$172,000 to offset the FY2017 snow and ice deficit
- \$84,392 for various Town budget line increases

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$33,883,640 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, capital improvements (other than buildings), machinery and equipment, vehicles, and infrastructure.

Major capital asset acquisitions during the current fiscal year included the following:

Governmental activities:

- \$575,288 Various roadway improvements
- \$189,731 Acquisition of new ambulance
- \$140,587 West Townsend fire station
- \$41,020 Purchase of police vehicles

Business-type activities:

- \$307,627 Witch's Brook rehabilitation project
- \$119,719 Water tank improvements
- \$166,012 Various infrastructure improvements

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$2,343,038, all of which was backed by the full faith and credit of the Town.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

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 Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Administrator
Memorial Hall, Upper Level
272 Main Street
Townsend, Massachusetts 01469

TOWN OF TOWNSEND, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 4,274,331	\$ 860,620	\$ 5,134,951
Investments	1,994,397	1,039,597	3,033,994
Receivables, net of allowance for uncollectibles:			
Property taxes	356,158	-	356,158
Excises	150,129	-	150,129
User fees	-	316,702	316,702
Departmental and other	312,464	-	312,464
Intergovernmental	167,050	-	167,050
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	625,247	-	625,247
Capital assets, net of accumulated depreciation	25,848,248	3,234,714	29,082,962
Capital assets, not being depreciated	3,739,228	1,061,450	4,800,678
Deferred Outflows of Resources			
Related to pensions	<u>1,632,650</u>	<u>125,156</u>	<u>1,757,806</u>
Total Assets and Deferred Outflows of Resources	39,099,902	6,638,239	45,738,141
Liabilities			
Current:			
Warrants payable	390,314	20,467	410,781
Accrued liabilities	161,230	296,730	457,960
Notes payable	889,000	-	889,000
Other current liabilities	41,782	11,326	53,108
Current portion of long-term liabilities:			
Bonds payable	399,138	100,080	499,218
Landfill	20,000	-	20,000
Compensated absences	4,240	134	4,374
Capital leases	63,664	-	63,664
Noncurrent:			
Bonds payable, net of current portion	967,303	876,517	1,843,820
Landfill postclosure, net of current portion	346,000	-	346,000
Compensated absences, net of current portion	38,160	1,205	39,365
Capital leases, net of current portion	65,734	-	65,734
Net pension liability	8,515,015	652,745	9,167,760
Deferred Inflows of Resources			
Related to pensions	<u>459</u>	<u>35</u>	<u>494</u>
Total Liabilities and Deferred Inflows of Resources	11,902,039	1,959,239	13,861,278
Net Position			
Net investment in capital assets	27,385,730	3,453,773	30,839,503
Restricted for:			
Grants and other statutory restrictions	2,348,236	-	2,348,236
Permanent funds:			
Nonexpendable	322,451	-	322,451
Expendable	116,167	-	116,167
Unrestricted	<u>(2,974,721)</u>	<u>1,225,227</u>	<u>(1,749,494)</u>
Total Net Position	<u>\$ 27,197,863</u>	<u>\$ 4,679,000</u>	<u>\$ 31,876,863</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
General government	\$ 2,539,555	\$ 301,962	\$ 91,554	\$ -	\$ (2,146,039)	\$ -	\$ (2,146,039)
Public safety	4,709,813	933,052	130,915	-	(3,645,846)	-	(3,645,846)
Education	10,888,235	-	-	-	(10,888,235)	-	(10,888,235)
Public works	1,688,150	26,323	-	585,304	(1,076,523)	-	(1,076,523)
Sanitation	649,175	-	-	-	(649,175)	-	(649,175)
Health and human services	410,230	29,469	123,891	-	(256,870)	-	(256,870)
Culture and recreation	499,945	59,336	19,627	-	(420,982)	-	(420,982)
Interest	77,070	-	-	-	(77,070)	-	(77,070)
Intergovernmental	70,434	-	-	-	(70,434)	-	(70,434)
Total governmental activities	21,532,607	1,350,142	365,987	585,304	(19,231,174)	-	(19,231,174)
Business-Type Activities							
Water operations	839,882	1,168,967	-	-	-	329,085	329,085
Total business-type activities	839,882	1,168,967	-	-	-	329,085	329,085
Total	\$ 22,372,489	\$ 2,519,109	\$ 365,987	\$ 585,304	(19,231,174)	329,085	(18,902,089)
General Revenues and Transfers:							
Property taxes					16,133,520	-	16,133,520
Excises					1,248,845	-	1,248,845
Penalties, interest, and other taxes					319,891	-	319,891
Grants and contributions not restricted to specific programs					1,496,494	-	1,496,494
Investment income					54,650	11,835	66,485
Miscellaneous					40,488	-	40,488
Transfers, net					(22,104)	22,104	-
Total general revenues and transfers					19,271,784	33,939	19,305,723
Change in net position					40,610	363,024	403,634
Net Position:							
Beginning of year					27,157,253	4,315,976	31,473,229
End of year					\$ 27,197,863	\$ 4,679,000	\$ 31,876,863

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and short-term investments	\$ 2,125,382	\$ 704,878	\$ 1,444,071	\$ 4,274,331
Investments	1,543,237	-	451,160	1,994,397
Receivables:				
Property taxes	1,121,133	-	-	1,121,133
Excises	208,078	-	-	208,078
Departmental and other	-	164,979	147,485	312,464
Intergovernmental	-	-	167,050	167,050
Total assets	<u>\$ 4,997,830</u>	<u>\$ 869,857</u>	<u>\$ 2,209,766</u>	<u>\$ 8,077,453</u>
Liabilities				
Warrants payable	\$ 257,948	\$ -	\$ 18,857	\$ 276,805
Accrued liabilities	142,491	-	128,436	270,927
Notes payable	-	-	889,000	889,000
Other liabilities	-	-	41,782	41,782
Total liabilities	400,439	-	1,078,075	1,478,514
Deferred Inflows of Resources				
Unavailable revenues	1,262,569	164,979	147,485	1,575,033
Fund Balances				
Nonspendable	-	-	322,451	322,451
Restricted	1,751	704,878	1,548,316	2,254,945
Committed	1,077,861	-	-	1,077,861
Assigned	91,263	-	-	91,263
Unassigned	2,163,947	-	(886,561)	1,277,386
Total fund balances	<u>3,334,822</u>	<u>704,878</u>	<u>984,206</u>	<u>5,023,906</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,997,830</u>	<u>\$ 869,857</u>	<u>\$ 2,209,766</u>	<u>\$ 8,077,453</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total governmental fund balances	\$ 5,023,906
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,587,476
• Deferred outflows of resources related to pensions to be recognized in pension expense in future periods.	1,632,650
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,377,356
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(1,366,441)
Landfill postclosure	(366,000)
Compensated absences	(42,400)
Capital leases	(129,398)
Net pension liability	(8,515,015)
• Deferred inflows of resources related to pensions to be recognized in pension expense in future periods.	(459)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due	<u>(3,812)</u>
Net position of governmental activities	<u><u>\$ 27,197,863</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	General <u>Fund</u>	Ambulance <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues				
Property taxes	\$ 16,203,296	\$ -	\$ -	\$ 16,203,296
Excises	1,370,978	-	-	1,370,978
Penalties, interest, and other taxes	214,131	-	-	214,131
Charges for services	136,858	509,198	458,917	1,104,973
Intergovernmental	1,568,451	-	879,334	2,447,785
Licenses and permits	149,162	-	75,000	224,162
Fines and forfeitures	15,194	-	-	15,194
Investment income	33,994	-	20,656	54,650
Miscellaneous	-	15,158	25,330	40,488
	<u>19,692,064</u>	<u>524,356</u>	<u>1,459,237</u>	<u>21,675,657</u>
Total revenues				
Expenditures				
Current:				
General government	1,711,022	-	39,813	1,750,835
Public safety	3,268,461	-	427,751	3,696,212
Education	10,888,235	-	-	10,888,235
Public works	974,489	-	601,004	1,575,493
Sanitation	649,175	-	-	649,175
Health and human services	241,710	-	85,000	326,710
Culture and recreation	306,358	-	63,767	370,125
Employee benefits	1,577,916	-	-	1,577,916
Debt service	482,396	-	-	482,396
Intergovernmental	70,434	-	-	70,434
	<u>20,170,196</u>	<u>-</u>	<u>1,217,335</u>	<u>21,387,531</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(478,132)	524,356	241,902	288,126
Other Financing Sources (Uses)				
Issuance of capital lease	189,731	-	-	189,731
Transfers in	606,692	-	205,000	811,692
Transfers out	<u>(227,104)</u>	<u>(404,233)</u>	<u>(202,459)</u>	<u>(833,796)</u>
Total Other Financing Sources (Uses)	<u>569,319</u>	<u>(404,233)</u>	<u>2,541</u>	<u>167,627</u>
Change in fund balances	91,187	120,123	244,443	455,753
Fund Balance at Beginning of Year¹	<u>3,243,635</u>	<u>584,755</u>	<u>739,763</u>	<u>4,568,153</u>
Fund Balance at End of Year	<u>\$ 3,334,822</u>	<u>\$ 704,878</u>	<u>\$ 984,206</u>	<u>\$ 5,023,906</u>

¹As reclassified for Ambulance fund, see note 21

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Net change in governmental fund balances	\$ 455,753																
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay</td> <td style="text-align: right;">1,088,324</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,203,630)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue, net of change in allowance for doubtful accounts. (80,336) • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">409,138</td> </tr> <tr> <td>Issuance of capital lease</td> <td style="text-align: right;">(189,731)</td> </tr> <tr> <td>Repayments of capital lease</td> <td style="text-align: right;">60,333</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the net change in accrued interest. (3,812) • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Change in landfill postclosure liability</td> <td style="text-align: right;">18,500</td> </tr> <tr> <td>Change in compensated absences</td> <td style="text-align: right;">(3,855)</td> </tr> <tr> <td>Change in net pension liability, net of related deferrals</td> <td style="text-align: right;"><u>(510,074)</u></td> </tr> </table> 		Capital outlay	1,088,324	Depreciation	(1,203,630)	Repayments of debt	409,138	Issuance of capital lease	(189,731)	Repayments of capital lease	60,333	Change in landfill postclosure liability	18,500	Change in compensated absences	(3,855)	Change in net pension liability, net of related deferrals	<u>(510,074)</u>
Capital outlay	1,088,324																
Depreciation	(1,203,630)																
Repayments of debt	409,138																
Issuance of capital lease	(189,731)																
Repayments of capital lease	60,333																
Change in landfill postclosure liability	18,500																
Change in compensated absences	(3,855)																
Change in net pension liability, net of related deferrals	<u>(510,074)</u>																
Change in net position of governmental activities	\$ <u><u>40,610</u></u>																

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In				
Property taxes	\$ 16,102,304	\$ 16,102,304	\$ 16,203,296	\$ 100,992
Excises	1,216,300	1,216,300	1,370,978	154,678
Penalties, interest, and other taxes	120,000	120,000	214,131	94,131
Charges for services	116,752	116,752	136,858	20,106
Intergovernmental	1,573,557	1,573,557	1,568,451	(5,106)
Licenses and permits	180,000	180,000	149,162	(30,838)
Fines and forfeitures	15,000	15,000	15,194	194
Investment income	10,000	10,000	10,653	653
Transfers in	871,644	1,173,494	1,141,185	(32,309)
Total revenues and transfers in	20,205,557	20,507,407	20,809,908	302,501
Expenditures and Transfers Out				
General government	1,670,864	1,762,963	1,697,057	65,906
Public safety	3,205,975	3,551,713	3,449,616	102,097
Education	10,935,285	10,930,285	10,888,235	42,050
Public works	925,003	1,260,057	1,131,173	128,884
Sanitation	655,888	654,770	649,175	5,595
Health and human services	279,243	288,038	241,655	46,383
Culture and recreation	301,940	307,649	306,358	1,291
Employee benefits	1,822,351	1,782,316	1,749,086	33,230
Debt service	513,961	505,961	504,500	1,461
Intergovernmental	71,493	71,493	70,434	1,059
Transfers out	205,000	405,000	405,000	-
Total expenditures and transfers out	20,587,003	21,520,245	21,092,289	427,956
Excess of revenues and transfers in over expenditures and transfers out	(381,446)	(1,012,838)	(282,381)	730,457
Other Financing Sources (Uses)				
Use of free cash:				
For capital stabilization funding	-	200,000	-	(200,000)
For funding of snow and ice deficit	-	172,000	-	(172,000)
For debt service	200,000	200,000	-	(200,000)
For capital improvements	178,119	353,119	-	(353,119)
Other departmental expenditures	5,000	89,392	-	(89,392)
Raising of prior year deficits	(1,673)	(1,673)	-	1,673
Excess of revenues, transfers in and other sources over expenditures, transfers out and other uses	\$ -	\$ -	\$ (282,381)	\$ (282,381)

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Water Enterprise Fund
Assets	
Current:	
Cash and short-term investments	\$ 860,620
Investments	1,039,597
User fees, net of allowance for uncollectibles	<u>316,702</u>
Total current assets	2,216,919
Noncurrent:	
Capital assets, net of accumulated depreciation	3,234,714
Capital assets, not being depreciated	<u>1,061,450</u>
Total noncurrent assets	4,296,164
Deferred Outflows of Resources	
Related to pensions	<u>125,156</u>
Total Assets and Deferred Outflows of Resources	6,638,239
Liabilities	
Current:	
Warrants payable	20,467
Accrued liabilities	296,730
Other current liabilities	11,326
Current portion of long-term liabilities:	
Bonds payable	100,080
Compensated absences	<u>134</u>
Total current liabilities	428,737
Noncurrent:	
Bonds payable, net of current portion	876,517
Net pension liability	652,745
Compensated absences, net of current portion	<u>1,205</u>
Total noncurrent liabilities	1,530,467
Deferred Inflows of Resources	
Related to pensions	<u>35</u>
Total Liabilities and Deferred Inflows of Resources	1,959,239
Net Position	
Net investment in capital assets	3,453,773
Unrestricted	<u>1,225,227</u>
Total Net Position	<u>\$ 4,679,000</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Water Enterprise <u>Fund</u>
Operating Revenues	
Charges for services	\$ 1,167,749
Other	<u>1,218</u>
Total operating revenues	1,168,967
Operating Expenses	
Salaries and benefits	410,035
Other operating expenses	245,590
Depreciation	<u>153,112</u>
Total operating expenses	<u>808,737</u>
Operating income	360,230
Nonoperating Revenues (Expenses)	
Investment income	11,835
Interest expense	<u>(31,145)</u>
Total nonoperating revenues (expenses), net	<u>(19,310)</u>
Income before transfers	340,920
Transfers	
Transfers in	<u>22,104</u>
Change in net position	363,024
Net Position at Beginning of Year	<u>4,315,976</u>
Net Position at End of Year	<u><u>\$ 4,679,000</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017

	Water Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 1,161,390
Payments to vendors and employees	<u>(349,257)</u>
Net Cash Provided By Operating Activities	812,133
Cash Flows From Noncapital Financing Activities	
Transfers in	<u>22,104</u>
Net Cash Provided by Noncapital Financing Activities	22,104
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(593,358)
Principal payments on bonds	(103,364)
Interest expense	<u>(22,698)</u>
Net Cash (Used for) Capital and Related Financing Activities	(719,420)
Cash Flows From Investing Activities	
Investment income	11,835
Investment purchases	<u>(749,197)</u>
Net Cash (Used for) Investing Activities	<u>(737,362)</u>
Net Change in Cash and Short-Term Investments	(622,545)
Cash and Short-Term Investments, Beginning of Year	<u>1,483,165</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 860,620</u></u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities	
Operating income	\$ 360,230
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	153,112
Changes in assets, liabilities, and deferred outflows/inflows:	
User fees	(7,577)
Deferred outflows of resources related to pensions	(81,415)
Warrants payable	266,146
Accrued liabilities	999
Net pension liability	120,481
Deferred inflows of resources related to pensions	35
Compensated absences	<u>122</u>
Net Cash Provided By Operating Activities	<u><u>\$ 812,133</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and short-term investments	\$ -	\$ 245,017
Investments	<u>142,775</u>	<u>-</u>
Total assets	142,775	245,017
Liabilities		
Warrants payable	-	258
Other liabilities	<u>-</u>	<u>244,759</u>
Total liabilities	<u>-</u>	<u>245,017</u>
Net Position		
Total Net Position Restricted for Other Purposes	<u>\$ 142,775</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>
Additions	
Interest income	\$ <u>4,330</u>
Total additions	4,330
Deductions	
Education	500
Health and human services	<u>2,505</u>
Total deductions	<u>3,005</u>
Net increase	1,325
Net position	
Beginning of year	<u>141,450</u>
End of year	<u>\$ <u>142,775</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF TOWNSEND, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Townsend, Massachusetts (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide 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 nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *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.

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*.

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *ambulance fund* represents the Town's receipts for ambulance services. The receipts of the ambulance fund are used to replenish the general fund for operating expenditures related to the EMS department incurred throughout the fiscal year. As such, these funds are reserved for appropriation by Town Meeting votes.

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 recognized when 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 of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund* accounts for the resources and costs associated with the Town's water supply and distribution.

The fiduciary 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 liabilities are incurred.

The Town reports the following fiduciary funds:

- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in permanent funds, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *agency fund* accounts for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. This fund is primarily used for performance deposits and payroll withholdings. Agency funds report only assets and liabilities and, therefore, have no measurement focus.

D. Cash, Cash Equivalents, and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool

is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase. Municipalities having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company.

Investments consist of marketable securities, bonds, and short-term money market investments. Investments are carried at fair value, except certificates of deposit which are reported at cost.

E. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$12,620.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government using the following thresholds:

<u>Assets</u>	<u>Value Amount</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	40
Building improvements	\$ 25,000	20
Infrastructure	\$ 150,000	5 - 40
Machinery and equipment	\$ 25,000	3 - 10
Vehicles	\$ 5,000	5
Library books	\$ 5,000	10
Software	\$ 5,000	3
Land	\$ 25,000	N/A
Land improvements	\$ 5,000	N/A
Works of art and historical treasures	\$ 2,500	N/A

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the estimated useful lives noted above.

G. Compensated Absences

It is the Town's policy to permit certain employees to accumulate earned but unused vacation benefits. All vested vacation pay for those employees is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Earned but unused sick leave balances may be carried from one year to the next; however, these balances are not reimbursable upon resignation or termination of employment.

H. Long-Term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

The general fund and applicable enterprise fund typically repay these obligations.

I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance which is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investments in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

J. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual Town Meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by Town Meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting:

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 19,692,064	\$ 20,170,196
Other financing sources/uses (GAAP Basis)	<u>796,423</u>	<u>227,104</u>
Subtotal (GAAP Basis)	20,488,487	20,397,300
Reverse beginning-of-year appropriation carryforwards from expenditures	-	(131,147)
Add end-of-year appropriation carryforwards to expenditures	-	659,104
To reverse unbudgeted lease issuance	(189,731)	(189,731)
Reclass enterprise fund indirect cost reimbursement to budgetary basis	156,763	156,763
Reverse the effect of non-budgeted stabilization activity:		
Interest income	(23,341)	-
Transfers	<u>377,730</u>	<u>200,000</u>
Budgetary Basis	<u>\$ 20,809,908</u>	<u>\$ 21,092,289</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2017.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have deposit policies for custodial credit risk.

As of June 30, 2017, \$1,934,620 of the Town's bank balance of \$8,768,246 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town does not have policies for credit risk.

Presented below is the actual rating as of year-end for each investment of the Town (All federal agency securities have an implied credit rating of AAA):

Investment Type	Amount	Rating as of Year-end				
		AAA	A2	Baa1	Baa2	Not Rated
U.S. Treasury notes	\$ 373,701	\$ 373,701	\$ -	\$ -	\$ -	\$ -
Federal agency securities	482,644	482,644	-	-	-	-
Certificates of deposits	1,549,754	-	-	-	-	1,549,754
Corporate bonds	360,396	-	100,257	179,799	80,340	-
Corporate equities	278,818	-	-	-	-	278,818
Mutual funds	131,456	-	-	-	-	131,456
Total investments	\$ 3,176,769	\$ 856,345	\$ 100,257	\$ 179,799	\$ 80,340	\$ 1,960,028

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the counterparty to these securities. The Town manages this custodial credit risk by investing in counter-party's that participate in the Securities Investor Protection Corporation (SIPC) and excess SIPC coverages.

C. Concentration of Credit Risk

The Town places no limit on the amount that may be invested in any one issuer. The Town did not have any investments in any one issuer (other than U.S. treasuries, government agency securities, and mutual funds) that represent 5% or more of total investments as of June 30, 2017.

D. Interest Rate Risk

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

Information regarding the quality and maturity of the Town's fixed income securities is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Average Duration (in years)</u>	<u>Average Rating</u>
Debt-related Securities:			
U.S. Treasury notes	\$ 373,701	2.38	AAA
Federal agency securities	482,644	4.29	AAA
Corporate bonds	<u>360,396</u>	1.37	A3
Total	<u>\$ 1,216,741</u>		

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

Description	Fair Value Measurements Using:		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:			
Debt securities			
Federal agency securities	\$ 482,644	\$ 482,644	\$ -
U.S. Treasury notes	373,701	-	373,701
Corporate bonds	360,396	-	360,396
Equity securities	278,818	278,818	-
Mutual funds	131,456	-	131,456
Total investments at fair value	\$ <u>1,627,015</u>		

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

U.S. Treasury notes and corporate bonds classified in Level 2 are valued using standard inputs consisting of benchmark yields, reportable trades, benchmark securities (where available), and reference data including market research publications.

5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and motor vehicle excise receivables at June 30, 2017 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 377,827	\$ (57,796)	\$ 320,031
Personal property taxes	15,491	(9,150)	6,341
Tax liens	694,719	(69,472)	625,247
Deferred taxes	<u>33,096</u>	<u>(3,310)</u>	<u>29,786</u>
Total property taxes	1,121,133	(139,728)	981,405
Motor vehicle excise	<u>208,078</u>	<u>(57,949)</u>	<u>150,129</u>
Grand Total	<u>\$ 1,329,211</u>	<u>\$ (197,677)</u>	<u>\$ 1,131,534</u>

6. User Fee Receivables

Water user charges are based on meter readings that are done by the Townsend Water Department at the end of each quarter – March, June, September, and December – and are billed in the months following the meter readings. An overdue notice will be sent to water users whose bill remains outstanding by the end of the month in which the first bill is rendered. A demand charge of \$2 per unit will be added to the original bill, plus 1.5% interest. If the bill remains outstanding for 15 days following the overdue notice, the Water Commissioners may order the Superintendent to shut off the water service following Sec IIA, Chapter 165 of the Massachusetts General Laws. The water service will remain shut off until such time that the total outstanding bill is paid, plus an additional turn-on fee of \$35.

All outstanding balances of accumulated water charges plus demands and interest with no payments for more than three billing periods constitute a lien on the property, and may be turned over to the tax collector for collection.

Water service connection fees are charged for each new service tapped into the main. The charge covers the costs of digging, tapping the main, laying the standard water lines, and installation of a standard water meter. If larger services or meters are required, additional charges will be rendered.

Receivables for water user charges, water liens, and other water fees at June 30, 2017 consist of the following:

<u>Receivables</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 344,304	\$ (34,430)	\$ 309,874
Water liens	3,634	(815)	2,819
Water - other	<u>8,019</u>	<u>(4,010)</u>	<u>4,009</u>
Total	<u>\$ 355,957</u>	<u>\$ (39,255)</u>	<u>\$ 316,702</u>

7. Transfers In/Out

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2017:

	<u>Transfers In</u>	<u>Transfers Out</u>	
Governmental Funds			
General fund	\$ 606,692	\$ 227,104	(1) (2) (3) (4)
Nonmajor Governmental Funds			
Ambulance receipts reserved	-	404,233	(1)
Cable access	-	160,000	(1)
Title V betterments	-	27,538	(1)
Wetlands protection	-	5,721	(1)
Cemetery - sale of lots	-	6,300	(1)
WTRR receipts reserved	-	2,900	(1)
Capital project funds	200,000	-	(2)
Permanent Funds	5,000	-	(3)
Proprietary Funds			
Water	<u>22,104</u>	<u>-</u>	(4)
Total	<u>\$ 833,796</u>	<u>\$ 833,796</u>	

(1) Transfers from receipts reserved for appropriations accounts to the general fund for capital improvements and operating budget.

(2) Transfer for BAN paydown.

(3) Transfer to conservation commission trust as voted at Town Meeting.

(4) Transfer to Water fund for principal debt service

8. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 22,883,288	\$ 22,000	\$ -	\$ 22,905,288
Capital improvements (other than buildings)	713,535	-	-	713,535
Machinery, equipment, and furnishings	5,353,930	71,731	-	5,425,661
Vehicles	1,135,150	231,708	-	1,366,858
Library books	520,003	-	-	520,003
Infrastructure	11,538,345	622,298	-	12,160,643
Total capital assets, being depreciated	42,144,251	947,737	-	43,091,988
Less accumulated depreciation for:				
Buildings and improvements	(5,561,319)	(578,114)	-	(6,139,433)
Capital improvements (other than buildings)	(354,508)	(26,285)	-	(380,793)
Machinery, equipment, and furnishings	(4,199,343)	(242,918)	-	(4,442,261)
Vehicles	(962,979)	(84,182)	-	(1,047,161)
Library books	(430,867)	(23,597)	-	(454,464)
Infrastructure	(4,531,094)	(248,534)	-	(4,779,628)
Total accumulated depreciation	(16,040,110)	(1,203,630)	-	(17,243,740)
Total capital assets, being depreciated, net	26,104,141	(255,893)	-	25,848,248
Capital assets, not being depreciated:				
Land	3,543,441	-	-	3,543,441
Art and historical treasures	55,200	-	-	55,200
Construction in progress	-	140,587	-	140,587
Total capital assets, not being depreciated	3,598,641	140,587	-	3,739,228
Governmental activities capital assets, net	\$ 29,702,782	\$ (115,306)	\$ -	\$ 29,587,476
Business-Type Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,693,463	\$ -	\$ -	\$ 1,693,463
Capital improvements (other than buildings)	693,836	-	-	693,836
Machinery, equipment, and furnishings	667,393	28,560	-	695,953
Vehicles	134,986	-	-	134,986
Infrastructure	2,129,559	165,605	-	2,295,164
Total capital assets, being depreciated	5,319,237	194,165	-	5,513,402
Less accumulated depreciation for:				
Buildings and improvements	(473,035)	(39,512)	-	(512,547)
Capital improvements (other than buildings)	(356,801)	(13,650)	-	(370,451)
Machinery, equipment, and furnishings	(319,881)	(45,166)	-	(365,047)
Vehicles	(100,620)	(10,697)	-	(111,317)
Infrastructure	(875,239)	(44,087)	-	(919,326)
Total accumulated depreciation	(2,125,576)	(153,112)	-	(2,278,688)
Total capital assets, being depreciated, net	3,193,661	41,053	-	3,234,714
Capital assets, not being depreciated:				
Land	662,257	-	-	662,257
Construction in progress	-	399,193	-	399,193
Total capital assets, not being depreciated	662,257	399,193	-	1,061,450
Business-type activities capital assets, net	\$ 3,855,918	\$ 440,246	\$ -	\$ 4,296,164

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities

General government	\$ 436,277
Public safety	326,849
Public works	415,084
Culture and recreation	<u>25,420</u>
Total depreciation expense - governmental activities	\$ <u><u>1,203,630</u></u>

Business-Type Activities

Water	\$ <u>153,112</u>
Total depreciation expense - business-type activities	\$ <u><u>153,112</u></u>

9. Deferred Outflows of Resources

In addition to assets, the basic financial statements include a separate element for deferred outflows of resources. Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), are more fully discussed in Note 18.

10. Warrants Payable

Warrants payable represent fiscal year 2017 expenditures paid by July 15, 2017.

11. Accrued Liabilities

Accrued liabilities represent fiscal year 2017 expenditures paid after July 15, 2017.

12. Notes Payable

The following summarizes activity in notes payable during fiscal year 2017:

	Interest Rate	Date of Issue	Date of Maturity	Beginning Balance at 6/30/2016	New Issues	Maturities	Ending Balance at 6/30/17
Governmental Activities							
Roadway improvements	0.75%	12/11/15	12/09/16	\$ 100,000	\$ -	\$ (100,000)	\$ -
Capital improvements	0.75%	12/11/15	12/09/16	630,000	-	(630,000)	-
Building purchase & removal	0.75%	12/11/15	12/09/16	159,000	-	(159,000)	-
Fire substation	0.85%	09/01/16	05/01/17	-	200,000	(200,000)	-
Capital improvements	1.00%	12/06/16	05/01/17	-	689,000	(689,000)	-
Capital improvements	1.25%	05/01/17	12/01/17	-	530,000	-	530,000
American legion	1.25%	05/01/17	12/01/17	-	159,000	-	159,000
Fire substation	1.25%	05/01/17	12/01/17	-	200,000	-	200,000
Total				<u>\$ 889,000</u>	<u>\$ 1,778,000</u>	<u>\$ (1,778,000)</u>	<u>\$ 889,000</u>

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
Land acquisition II	06/15/19	4.50-5.00%	\$ 15,000
Title V - Water pollution	08/01/19	5.38-5.50%	32,349
Public buildings	06/15/22	4.25-5.00%	220,000
Land acquisition I	06/15/22	4.50-5.00%	125,000
Title V	08/01/22	5.00-5.25%	43,718
Landfill closure I	06/15/24	4.25-5.00%	455,000
Landfill closure II (72%)	06/15/24	4.25-5.00%	165,600
Title V	07/15/27	0.00%	104,774
Memorial Hall - refunding	07/15/27	2.00-3.00%	95,000
Land acquisition - refunding	07/15/27	2.00-3.00%	10,000
Fire truck	07/15/27	2.00-3.00%	100,000
Total Governmental Activities:			<u>\$ 1,366,441</u>
<u>Business-Type Activities</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
Water - refunding	12/17/17	2.00-3.00%	\$ 5,000
Landfill closure II (28%)	06/15/24	4.25-5.00%	64,400
Water pumping station	07/15/25	2.00%	349,022
Water improvements - East Side	07/15/26	2.00%	558,175
Total Business-Type Activities:			<u>\$ 976,597</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 399,138	\$ 52,023	\$ 451,161
2019	189,138	40,470	229,608
2020	187,738	32,228	219,966
2021	176,955	24,201	201,156
2022	218,924	20,041	238,965
2023 - 2027	185,024	9,609	194,633
2028	9,524	-	9,524
Total	<u>\$ 1,366,441</u>	<u>\$ 178,572</u>	<u>\$ 1,545,013</u>

The water enterprise fund has been designated as the source to repay the following long-term debt outstanding as of June 30, 2017:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,080	\$ 20,355	\$ 120,435
2019	96,831	18,151	114,982
2020	100,017	13,740	113,757
2021	101,840	11,917	113,757
2022	121,900	10,057	131,957
2023 - 2027	455,929	21,483	477,412
Total	<u>\$ 976,597</u>	<u>\$ 95,703</u>	<u>\$ 1,072,300</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
Governmental Activities						
Bonds payable	\$ 1,775,579	\$ -	\$ (409,138)	\$ 1,366,441	\$ (399,138)	\$ 967,303
Landfill liability	384,500	-	(18,500)	366,000	(20,000)	346,000
Compensated absences	38,545	6,248	(2,393)	42,400	(4,240)	38,160
Capital leases	-	189,731	(60,333)	129,398	(63,664)	65,734
Net pension liability	<u>6,943,354</u>	<u>1,571,661</u>	<u>-</u>	<u>8,515,015</u>	<u>-</u>	<u>8,515,015</u>
Totals	<u>\$ 9,141,978</u>	<u>\$ 1,767,640</u>	<u>\$ (490,364)</u>	<u>\$ 10,419,254</u>	<u>\$ (487,042)</u>	<u>\$ 9,932,212</u>

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
Business-Type Activities						
Bonds payable	\$ 1,079,961	\$ -	\$ (103,364)	\$ 976,597	\$ (100,080)	\$ 876,517
Compensated absences	1,217	459	(337)	1,339	(134)	1,205
Net pension liability	<u>532,264</u>	<u>120,481</u>	<u>-</u>	<u>652,745</u>	<u>-</u>	<u>652,745</u>
Totals	<u>\$ 1,613,442</u>	<u>\$ 120,940</u>	<u>\$ (103,701)</u>	<u>\$ 1,630,681</u>	<u>\$ (100,214)</u>	<u>\$ 1,530,467</u>

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$366,000 reported as landfill postclosure care liability at June 30, 2017 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in fiscal year 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in fiscal year 2019. Future minimum lease payments under the capital leases under obligation consisted of the following as of June 30, 2017:

<u>Fiscal Year</u>	<u>Present Value of Minimim Lease Payments</u>	<u>Interest Payments</u>	<u>Total Lease Payments</u>
2018	\$ 63,664	\$ 4,205	\$ 67,869
2019	<u>65,734</u>	<u>2,136</u>	<u>67,870</u>
Total	<u>\$ 129,398</u>	<u>\$ 6,341</u>	<u>\$ 135,739</u>

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pensions will be recognized in pension expense in future years and is more fully described in Note 18. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

17. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes funds set aside in the general fund for future debt service, various special revenue funds, capital project funds, and the income portion of permanent trust funds.

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. This fund balance classification includes funds set aside in the Town's capital stabilization fund and general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods and deficit balances in nonmajor governmental funds.

Following is a breakdown of the Town's fund balances at June 30, 2017:

	General Fund	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 322,451	\$ 322,451
Total nonspendable	-	-	322,451	322,451
Restricted				
For debt service	1,751	-	-	1,751
Capital projects	-	-	101,255	101,255
Ambulance	-	704,878	-	704,878
Cablevision Access receipts reserved	-	-	398,863	398,863
Septic Title V revolving fund	-	-	215,001	215,001
Recreation revolving fund	-	-	84,722	84,722
CDBG program income	-	-	80,648	80,648
Inspectional revolving fund	-	-	70,877	70,877
Green communities grant	-	-	49,924	49,924
Cemetery revolving fund	-	-	36,978	36,978
EPS police grant	-	-	27,665	27,665
Other special revenue funds	-	-	366,216	366,216
Expendable permanent funds	-	-	116,167	116,167
Total restricted	1,751	704,878	1,548,316	2,254,945
Committed				
Capital stabilization accounts	124,162	-	-	124,162
For continuing appropriations:				
General government	262,910	-	-	262,910
Public safety	364,322	-	-	364,322
Public works	121,973	-	-	121,973
Employee benefits	4,494	-	-	4,494
For debt service	100,000	-	-	100,000
For roadway improvements	100,000	-	-	100,000
Total committed	1,077,861	-	-	1,077,861
Assigned				
Encumbered for:				
General government	27,566	-	-	27,566
Public safety	49,290	-	-	49,290
Debt service	14,407	-	-	14,407
Total assigned	91,263	-	-	91,263
Unassigned - operating fund	922,602	-	-	922,602
Unassigned - general stabilization	1,241,345	-	-	1,241,345
Unassigned - deficit balances	-	-	(886,561)	(886,561)
Total unassigned	2,163,947	-	(886,561)	1,277,386
Total Fund Balance	\$ 3,334,822	\$ 704,878	\$ 984,206	\$ 5,023,906

18. Middlesex County Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town are members of the Middlesex County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System's Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 25 Linnell Circle, Billerica, Massachusetts 01821.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the five years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any two consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years' creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%
1979 - present	Additional 2.00% of salary in excess of \$30,000
Group 1 members hired on or after April 2, 2012	6.00% with 30 or more years of credible service

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2017 was \$690,007, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$9,167,760 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of or as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the Town's proportion was 0.647040%.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,239,182. In addition, 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>
Differences between expected and actual experience	\$ 41,289	\$ -
Changes of assumptions	499,519	-
Net difference between projected and actual earnings on pension plan investments	380,626	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>836,372</u>	<u>(494)</u>
Total	<u>\$ 1,757,806</u>	<u>\$ (494)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ 482,552
2019	482,552
2020	475,991
2021	<u>316,217</u>
Total	<u>\$ 1,757,312</u>

D. Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2016 rolled forward to December 31, 2016
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Projected salary increases	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4
Post-retirement cost-of-living adjustment	3.00% on the first \$14,000

Mortality rates were based on the RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D for pre-retirement, the RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D for post-retirement, and the RP-2000 Healthy Annuitant Mortality Table set forward three years projected generationally from 2015 with Scale BB2D for disabled retirees.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and

best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	Long-term Expected Asset <u>Allocation</u>	Long-term Expected Real Rate <u>of Return</u>
Domestic equity	19.50%	7.50%
International equity	16.80%	7.83%
Core fixed income	12.30%	3.75%
Private equity	11.10%	9.50%
Real estate	10.00%	6.50%
Hedge funds	9.00%	6.48%
Value-added fixed income	8.30%	7.26%
Emerging markets equity	6.90%	9.61%
Timber/natural resources	3.60%	6.00%
Portfolio completion strategies	1.10%	6.48%
Overlay	1.00%	6.48%
Liquidating portfolios	0.40%	6.48%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$	11,070,900	\$ 9,167,760	\$ 7,559,343

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

19. Other Post-Employment Benefits – OPEB (GASB 45)

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 45), requires governments to account for other post-employment benefits (OPEB), primarily health-care, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2016, the actuarial valuation date, approximately 3 retirees and 66 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal year 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing

basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

Annual Required Contribution (ARC)	\$ 14,455
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB cost	14,455
Contributions made	<u>(14,455)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 14,455	100%	\$ -
2016	\$ 42,425	100%	\$ -
2015	\$ 39,680	100%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 228,412
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 228,412</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.00%</u>
Covered payroll (active plan members)	<u>\$ 3,387,073</u>
UAAL as a percentage of covered payroll	<u>6.67%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of

events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the June 30, 2016 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.00% investment rate of return and an initial annual healthcare cost trend rate of 6.00%, which decreases to a 4.50% long-term rate for all healthcare benefits after year 2020. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.00%.

20. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

21. Beginning Fund Balance Reclassification

The beginning (July 1, 2016) fund balance of the Town has been reclassified as follows:

Fund Basis Financial Statements:

	General <u>Fund</u>	Ambulance <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
As previously reported	\$ 3,243,635	\$ -	\$ 1,324,518	\$ 4,568,153
Reclassify major funds	<u>-</u>	<u>584,755</u>	<u>(584,755)</u>	<u>-</u>
As reclassified	<u>\$ 3,243,635</u>	<u>\$ 584,755</u>	<u>\$ 739,763</u>	<u>\$ 4,568,153</u>

22. Subsequent Events

Issuance of long-term debt:

Subsequent to June 30, 2017, the Town has incurred the following additional debt:

	Interest <u>Rate</u>	Issue <u>Date</u>	Maturity <u>Date</u>	<u>Amount</u>
Governmental Activities				
General obligation municipal purpose loan	2.00-5.00%	11/30/17	11/30/38	\$ 3,670,000

Use of free cash:

On November 28, 2017, the Town voted to appropriate \$336,015 of free cash, of which \$250,000 was to supplement the Capital Stabilization account, \$50,000 was to fund additional non-recurring capital improvements, \$23,000 was to replenish the FY18 Finance Committee reserve fund, and \$13,015 was to fund prior year outstanding bills.

23. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

TOWN OF TOWNSEND, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(Unaudited)

Middlesex County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	0.647040%	\$ 9,167,760	\$ 2,866,064	319.87%	45.49%
June 30, 2016	December 31, 2015	0.579497%	\$ 7,475,618	\$ 2,998,738	249.29%	46.13%
June 30, 2015	December 31, 2014	0.561285%	\$ 6,742,808	\$ 2,883,402	233.85%	47.65%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**TOWN OF TOWNSEND, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(Unaudited)**

Middlesex County Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 690,007	\$ 690,007	\$ -	\$ 2,866,064	24.08%
June 30, 2016	\$ 650,040	\$ 650,040	\$ -	\$ 2,998,738	21.68%
June 30, 2015	\$ 673,724	\$ 673,724	\$ -	\$ 2,883,402	23.37%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**TOWN OF TOWNSEND, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2017
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/16	\$ -	\$ 228,412	\$ 228,412	0.0%	\$ 3,387,073	6.74%
06/30/14	\$ -	\$ 275,210	\$ 275,210	0.0%	\$ 4,123,366	6.67%
06/30/11	\$ -	\$ 176,000	\$ 176,000	0.0%	N/A	N/A

See Independent Auditors' Report.