

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF MIDDLETON, MASSACHUSETTS

Report on Examination of the Basic Financial Statements and
Additional Information

Year Ended June 30, 2018



TOWN OF MIDDLETON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts, (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents, except for the Middleton Electric Light Department "the Light Department" "the Electric Light Department" or "MELD", which is as of December 31, 2017 and is a Town Department reported as an enterprise fund and part of the Town's business-type funds. We did not audit the financial statements of the Light Department. The Light Department represents 100% of the assets, net position, and operating revenues of the Town's business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this discretely presented component unit, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 as of June 30, 2018, except for the Light Department, which is as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Prior Year Ending Balances

As discussed in Note IV certain balances in the Government-Wide of Net Position were restated which caused the previously reported total net position in the governmental activities to be restated. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 6, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Middleton, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018 (December 31, 2017 for the Light Department). We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

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

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

- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$39.3 million (*total net position*).
- After factoring the impact of the prior period adjustment previously discussed, the Town's total net position increased by approximately \$0.7 million year-over-year. This was the result of a decrease in governmental activities of approximately \$1.4 million offset by about a \$2.1 million increase in Light Department operations.
- The Town's total long-term debt in its governmental activities decreased by nearly \$1 million due to regular scheduled maturities.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of almost \$12.2 million, which was approximately \$0.4 million higher than the prior year. Of the ending fund balance almost \$4.6 million (12.5% of expenditures) is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures or nonspendable.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

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

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

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

Government-Wide Financial Analysis

The following table represents the condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Assets</u>						
Current and other assets	\$ 16,475,334	\$ 15,533,572	\$ 15,778,699	\$ 15,652,769	\$ 32,254,033	\$ 31,186,341
Capital assets, net	55,597,030	56,923,755	11,592,264	9,465,661	67,189,294	66,389,416
Total assets	72,072,364	72,457,327	27,370,963	25,118,430	99,443,327	97,575,757
Deferred outflows of resources	1,952,156	1,642,197	402,880	402,880	2,355,036	2,045,077
<u>Liabilities</u>						
Long-term liabilities	51,855,448	51,771,752	4,265,603	4,443,216	56,121,051	56,214,968
Other liabilities	3,784,061	3,330,148	1,364,491	1,050,400	5,148,552	4,380,548
Total liabilities	55,639,509	55,101,900	5,630,094	5,493,616	61,269,603	60,595,516
Deferred inflows of resources	1,107,324	306,587	75,215	75,215	1,182,539	381,802
<u>Net Position</u>						
Net investment in capital assets	40,911,838	40,899,959	11,592,264	9,465,661	52,504,102	50,365,620
Restricted	6,148,067	5,642,398	502,071	202,071	6,650,138	5,844,469
Unrestricted	(29,782,218)	(27,851,320)	9,974,199	10,284,747	(19,808,019)	(17,566,573)
Total Net Position	\$ 17,277,687	\$ 18,691,037	\$ 22,068,534	\$ 19,952,479	\$ 39,346,221	\$ 38,643,516

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$39.3 million (*total net position*), which represents an approximate \$0.7 million increase from the prior year's balance.

The largest portion (\$52.5 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional significant portion of the Town's total net position (\$6.7 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position* which is currently in a deficit position of over \$19.8 million. Surpluses of almost \$10.0 million in the business-type activities are offset by a deficit of almost \$29.8 million in the governmental activities. The business-type surplus may be used to meet the ongoing obligations of the business-type activities. The governmental activities deficit is primarily the result of \$36.8 million in obligations related to OPEB and pensions. The Town expects that its deficit in unrestricted net position will continue to increase for the foreseeable future until a mechanism to more adequately fund its annual OPEB obligation is in place.

The following table represents the condensed statement of changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 3,069,294	\$ 3,199,696	\$ 13,343,136	\$ 13,629,964	\$ 16,412,430	\$ 16,829,660
Operating grants and contributions	4,379,896	4,261,181	469,879	147,610	4,849,775	4,408,791
Capital grants and contributions	355,139	668,475	-	-	355,139	668,475
General revenues:						
Property taxes	27,899,193	26,182,322	-	-	27,899,193	26,182,322
Excise taxes	2,452,278	2,307,173	-	-	2,452,278	2,307,173
Unrestricted investment earnings	89,470	55,053	552,896	312,520	642,366	367,573
Other	574,756	793,341	-	-	574,756	793,341
Total Revenues	38,820,026	37,467,241	14,365,911	14,090,094	53,185,937	51,557,335
<u>Expenses</u>						
General government	2,570,318	2,497,652	-	-	2,570,318	2,497,652
Public safety	5,475,166	5,365,077	-	-	5,475,166	5,365,077
Education	27,451,770	26,796,587	-	-	27,451,770	26,796,587
Public works	2,864,444	2,958,560	-	-	2,864,444	2,958,560
Health and human services	730,824	665,455	-	-	730,824	665,455
Culture and recreation	998,083	1,107,685	-	-	998,083	1,107,685
Debt service	346,771	473,640	-	-	346,771	473,640
Electric light	-	-	12,045,856	13,092,925	12,045,856	13,092,925
Total Expenses	40,437,376	39,864,656	12,045,856	13,092,925	52,483,232	52,957,581
Change in net position before transfers	(1,617,350)	(2,397,415)	2,320,055	997,169	702,705	(1,400,246)
Transfers	204,000	220,000	(204,000)	(220,000)	-	-
Change in net position	(1,413,350)	(2,177,415)	2,116,055	777,169	702,705	(1,400,246)
Net position, beginning of year, as restated	18,691,037	20,868,452	19,952,479	19,175,310	38,643,516	40,043,762
Net position, end of year	\$ 17,277,687	\$ 18,691,037	\$ 22,068,534	\$ 19,952,479	\$ 39,346,221	\$ 38,643,516

Governmental Activities – Total revenues in fiscal year 2018 in the Town’s governmental activities increased almost \$1.4 million from fiscal year 2017. This increase was due primarily to an increase in property taxes which were over \$1.7 million greater than the prior year. Charges for services were consistent with prior year with a minor decrease and capital grants and contributions were about \$0.3 million greater than the prior year and operating grants and contributions were over \$0.6 million less than the prior year due to less Chapter 90 funding for road improvements from the State. All other revenue categories experienced minor increases and decreases that aggregated to the remaining net increase. The greatest revenue areas were property taxes which represented 71.9% of revenues. The increase was in line with the statutorily allowed increase from year to year and was expected. Operating grants which represented 11.3% of revenues were consistent with the prior year. No other revenue sources were greater than 10% of total revenues in fiscal years 2018 or 2017.

Total expenses for the current fiscal year were \$40.4 million; consistent with the prior year \$39.9. Education represents by far the largest expense category for the Town. In fiscal year 2018, education expenses represented approximately 67.9% of total expenses, consistent with 67.2% in the prior year. The Town continues to fund education expenses above the minimum state requirements. Public safety expenses represented 13.5% of total fiscal year 2018 expense; this is the same as in the prior year. No other expense types were greater than 10% of total expenses in fiscal years 2018 and 2017.

Business-Type Activities – Operating revenues of the light department remained consistent with prior year numbers. This was expected as there were no rate changes during the year. Operating expenses decreased approximately \$1.0 million, due to more efficient operations.

Government Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$12.2 million, which is approximately \$0.5 million higher than the prior year. Of the ending fund balance approximately \$4.6 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$4.6 million, while total general fund balance was over \$6.8 million. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 12.5% of total general fund expenditures, while total fund balance represents approximately 18.6% of that same amount. The change from the prior year was negligible.

The Town also maintains a major fund to account for its various capital projects. The Town reported \$0.1 million as restricted. The fund had virtually no activity in the current year thus remained unchanged.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds and trust funds. The fund balances in the nonmajors funds were \$0.5 million greater than last year due to timing of revenues and expenditures and the majority of the total, \$5.1 million was restricted.

Proprietary Funds – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the Light Department was over \$22.0 million.

Fiduciary Fund – The Town’s fiduciary fund is comprised of the Town and Light Department’s OPEB trusts and private purpose trust funds. The OPEB trusts increased over \$0.1 million and \$0.3 million respectively for the Town and Light Department trusts due to continued funding beyond the pay go amount; and the private purpose trust funds were relatively unchanged.

General Fund Budgetary Highlights

Differences between the original operating budget and the final amended operating budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to approximately \$67.2 million, net of accumulated depreciation. This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment and infrastructure. The balance was consistent with the prior year as additions and depreciation approximated each other.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

Long-term Debt – At June 30, 2018, the Town had total debt outstanding of approximately \$14.9 million, all reported in the governmental activities. Debt decreased approximately \$1 million due to regular scheduled maturities.

Moody’s Investors Service assigned a bond rating of Aa2 for its general obligation debt.

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

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which when setting the 2019 tax rate will be approximately 83.3% of the entire real estate tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy without a ballot override by the voters.
- Unemployment rates continue to improve, both nationally and at the local level. Rates are currently trending towards or better than historic highs.
- The Town’s housing market has stabilized and prices are approaching their early 2000 peaks. This has been fueled by an attractive mortgage market as rates are still relatively low. The Town is participating in this rebound as real estate sales are exceeding their assessed values and in certain situations their asking prices, however the extent and breadth of this rebound cannot be easily predicted.
- The Town anticipates receiving over \$2.3 million in state aid for 2019 and has factored this amount into its tax rate setting process. This is a significant budget source for the Town as a substantial

portion of this aid, more commonly referred to as Chapter 70 is used to subsidize the education budget.

The above items were considered when the Town accepted its budget for fiscal year 2019 at the May 2018 Town Meeting.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the CFO/Town Accountant, 48 South Main Street, Middleton, Massachusetts 01949.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 8,032,318	\$ 2,529,398	\$ 10,561,716
Investments	6,684,538	9,022,266	15,706,804
Receivables, net:			
Property taxes	1,221,294	-	1,221,294
User charges	12,499	1,304,699	1,317,198
Departmental and other	524,685	792,751	1,317,436
Unbilled revenue	-	161,530	161,530
Inventory	-	605,397	605,397
Prepaid items	-	1,360,777	1,360,777
Other assets	-	1,881	1,881
Capital assets not being depreciated	6,829,045	2,174,079	9,003,124
Capital assets, net of accumulated depreciation	48,767,985	9,418,185	58,186,170
Total Assets	72,072,364	27,370,963	99,443,327
Deferred Outflows of Resources			
Related to Pensions	1,902,156	402,880	2,305,036
OPEB contributions made after measurement date	50,000	-	50,000
Total Deferred Outflows of Resources	1,952,156	402,880	2,355,036
Liabilities			
Warrants and accounts payable	1,495,059	848,391	2,343,450
Accrued payroll and withholdings	1,038,812	-	1,038,812
Accrued interest	164,364	-	164,364
Customer deposits	-	247,896	247,896
Other liabilities	23,842	268,204	292,046
Noncurrent liabilities:			
Due within one year	1,061,984	-	1,061,984
Due in more than one year	51,855,448	4,265,603	56,121,051
Total Liabilities	55,639,509	5,630,094	61,269,603
Deferred Inflows of Resources			
Related to Pensions	952,441	75,215	1,027,656
Related to OPEB	154,883	-	154,883
Total Deferred Inflows of Resources	1,107,324	75,215	1,182,539
Net Position			
Net investment in capital assets	40,911,838	11,592,264	52,504,102
Restricted for:			
Nonexpendable permanent funds	163,903	-	163,903
Expendable permanent funds	122,862	-	122,862
Grants and gifts	386,802	-	386,802
Other specific purposes	5,474,500	502,071	5,976,571
Unrestricted	(29,782,218)	9,974,199	(19,808,019)
Total Net Position	\$ 17,277,687	\$ 22,068,534	\$ 39,346,221

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,570,318	\$ 457,776	\$ 121,627	\$ -	\$ (1,990,915)		\$ (1,990,915)
Public safety	5,475,166	1,073,179	8,325	30,357	(4,363,305)		(4,363,305)
Education	27,451,770	702,535	4,043,213	-	(22,706,022)		(22,706,022)
Public works	2,864,444	746,462	19,201	288,818	(1,809,963)		(1,809,963)
Health and human services	730,824	66,838	171,482	-	(492,504)		(492,504)
Culture and recreation	998,083	20,042	16,048	35,964	(926,029)		(926,029)
Interest expense	346,771	2,462	-	-	(344,309)		(344,309)
Total governmental activities	40,437,376	3,069,294	4,379,896	355,139	(32,633,047)		(32,633,047)
Business-type activities:							
Electric Light	12,045,856	13,343,136	469,879	-		\$ 1,767,159	1,767,159
Total business-type activities	12,045,856	13,343,136	469,879	-		1,767,159	1,767,159
Total Primary Government	\$ 52,483,232	\$ 16,412,430	\$ 4,849,775	\$ 355,139	(32,633,047)	1,767,159	(30,865,888)
General Revenues:							
					27,899,193	-	27,899,193
					2,452,278	-	2,452,278
					130,693	-	130,693
					359,613	-	359,613
					84,450	-	84,450
					89,470	552,896	642,366
					204,000	(204,000)	-
					31,219,697	348,896	31,568,593
					(1,413,350)	2,116,055	702,705
Net Position:							
					18,691,037	19,952,479	38,643,516
					\$ 17,277,687	\$ 22,068,534	\$ 39,346,221

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 9,375,057	\$ 162,946	\$ 5,178,853	\$ 14,716,856
Investments	-	-	-	-
Receivables, net of allowance for uncollectibles:				
Property taxes	1,208,987	-	12,307	1,221,294
Intergovernmental	-	-	-	-
User charges	-	-	12,499	12,499
Departmental and other	187,581	-	337,104	524,685
Total Assets	<u>10,771,625</u>	<u>162,946</u>	<u>5,540,763</u>	<u>16,475,334</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 10,771,625</u></u>	<u><u>\$ 162,946</u></u>	<u><u>\$ 5,540,763</u></u>	<u><u>\$ 16,475,334</u></u>
Liabilities				
Warrants and accounts payable	\$ 1,495,059	\$ -	\$ -	\$ 1,495,059
Accrued payroll and withholdings	1,038,812	-	-	1,038,812
Other liabilities	-	-	23,842	23,842
Total Liabilities	<u>2,533,871</u>	<u>-</u>	<u>23,842</u>	<u>2,557,713</u>
Deferred Inflows of Resources				
Unavailable revenues - property taxes	1,208,987	-	12,307	1,221,294
Unavailable revenues - other	187,581	-	349,603	537,184
Total Deferred Inflows of Resources	<u>1,396,568</u>	<u>-</u>	<u>361,910</u>	<u>1,758,478</u>
Fund Balances				
Nonspendable	-	-	163,903	163,903
Restricted	387,660	162,946	4,991,108	5,541,714
Committed	541,351	-	-	541,351
Assigned	1,332,366	-	-	1,332,366
Unassigned	4,579,809	-	-	4,579,809
Total Fund Balances	<u>6,841,186</u>	<u>162,946</u>	<u>5,155,011</u>	<u>12,159,143</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 10,771,625</u></u>	<u><u>\$ 162,946</u></u>	<u><u>\$ 5,540,763</u></u>	<u><u>\$ 16,475,334</u></u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 12,159,143
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	55,597,030
Other long-term assets are unavailable to pay current-period expenditures	1,758,478
Deferred outflows and inflows of resources to be recognized in future pension expense and OPEB expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings - pension related	(695,724)
Changes of assumptions - pension related	1,297,377
Differences between expected and actual experience - pension related	(223,626)
Changes in proportion and differences between Town contributions and the proportionate share of contributions - pension related	571,688
Net difference between projected and actual earnings - OPEB related	(114,837)
Differences between expected and actual experience - OPEB related	(40,046)
OPEB contribution made subsequent to the measurement date	<u>50,000</u>
Net effect of reporting deferred outflows and inflows of resources	844,832
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.	(164,364)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(14,890,961)
Unamortized premiums on bonds	(328,187)
Landfill closure	(892,500)
Net pension liability	(15,801,844)
Other postemployment benefits	<u>(21,003,940)</u>
Net effect of reporting long-term liabilities	<u>(52,917,432)</u>
Net Position of Governmental Activities	<u>\$ 17,277,687</u>
See accompanying notes to basic financial statements.	

TOWN OF MIDDLETON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 27,503,488	\$ -	\$ 222,018	\$ 27,725,506
Intergovernmental	4,416,013	-	726,843	5,142,856
Motor vehicle and other excises	2,478,473	-	-	2,478,473
Licenses and permits	685,476	-	-	685,476
Penalties and interest on taxes	84,450	-	-	84,450
Payments in lieu of taxes	130,693	-	-	130,693
Fines and forfeitures	13,585	-	-	13,585
Charges for services	-	-	1,029,936	1,029,936
Departmental and other revenue	429,141	-	994,923	1,424,064
Investment income	84,958	-	4,512	89,470
Contributions and donations	-	-	56,215	56,215
Total Revenues	<u>35,826,277</u>	<u>-</u>	<u>3,034,447</u>	<u>38,860,724</u>
Expenditures:				
Current:				
General government	1,930,141	1,232	50,889	1,982,262
Public safety	4,003,559	-	42,986	4,046,545
Education	21,904,063	-	910,501	22,814,564
Public works	1,757,677	-	645,827	2,403,504
Health and human services	524,651	-	83,490	608,141
Culture and recreation	551,463	-	44,639	596,102
Pension and employee benefits	4,306,150	-	-	4,306,150
State and county assessments	422,654	-	-	422,654
Debt service:				
Principal	968,063	-	104,423	1,072,486
Interest	390,864	-	9,890	400,754
Total Expenditures	<u>36,759,285</u>	<u>1,232</u>	<u>1,892,645</u>	<u>38,653,162</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(933,008)</u>	<u>(1,232)</u>	<u>1,141,802</u>	<u>207,562</u>
Other Financing Sources (Uses):				
Transfers in	953,401	-	140,342	1,093,743
Transfers out	(140,342)	-	(749,401)	(889,743)
Total Other Financing Sources (Uses)	<u>813,059</u>	<u>-</u>	<u>(609,059)</u>	<u>204,000</u>
Net Change in Fund Balances	(119,949)	(1,232)	532,743	411,562
FUND BALANCES - Beginning of year, as restated (See Note IV)	<u>6,961,135</u>	<u>164,178</u>	<u>4,622,268</u>	<u>11,747,581</u>
FUND BALANCES - End of year	<u>\$ 6,841,186</u>	<u>\$ 162,946</u>	<u>\$ 5,155,011</u>	<u>\$ 12,159,143</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances	\$	411,562
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items:

Capital outlays	969,012	
Depreciation expense	(2,295,737)	

		(1,326,725)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Amortization of premiums on bonds and notes payable	43,587	
Repayments of debt	968,063	

		1,011,650
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Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.

63,725

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

10,396

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

Landfill closure	52,500	
Pension benefits	(523,531)	
Other postemployment benefits	(1,112,927)	

		(1,583,958)
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Change in Net Position of Governmental Activities	\$	(1,413,350)
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See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Business-Type Activities Electric Light Enterprise (December 31, 2017)
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,529,398
Investments	9,022,266
Receivables (net):	
User charges	1,304,699
Departmental and other	792,751
Unbilled revenue	161,530
Inventory	605,397
Prepaid items	1,360,777
Other current assets	1,881
Total current assets	<u>15,778,699</u>
Noncurrent assets:	
Nondepreciable capital assets	2,174,079
Capital assets (net of depreciation)	<u>9,418,185</u>
Total noncurrent assets	<u>11,592,264</u>
Total Assets	<u>27,370,963</u>
Deferred Outflows of Resources	
Deferred pensions	<u>402,880</u>
Total Deferred Outflows of Resources	<u>402,880</u>
Liabilities	
Current liabilities:	
Warrants and accounts payable	848,391
Customer deposits	247,896
Other liabilities	<u>268,204</u>
Total current liabilities	<u>1,364,491</u>
Noncurrent liabilities:	
Compensated absences	66,954
Other postemployment benefits	355,748
Net pension liability	<u>3,842,901</u>
Total noncurrent liabilities	<u>4,265,603</u>
Total Liabilities	<u>5,630,094</u>
Deferred Inflows of Resources	
Deferred pensions	<u>75,215</u>
Total Deferred Inflows of Resources	<u>75,215</u>
Net Position	
Net investment in capital assets	11,592,264
Restricted	502,071
Unrestricted	<u>9,974,199</u>
Total Net Position	<u><u>\$ 22,068,534</u></u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

FISCAL YEAR ENDED JUNE 30, 2018

	Business-Type Activities <u>Electric Light Enterprise (December 31, 2017)</u>
Operating Revenues:	
Charges for services	\$ 13,343,136
Other operating revenues	<u>469,879</u>
Total Operating Revenues	<u>13,813,015</u>
Operating Expenses:	
Purchased power and production	9,111,930
Other operating expenses	2,269,233
Depreciation	<u>664,693</u>
Total Operating Expenses	<u>12,045,856</u>
Operating Income (Loss)	<u>1,767,159</u>
Nonoperating Revenues (Expenses):	
Investment income	<u>552,896</u>
Total Nonoperating Revenues (Expenses)	<u>552,896</u>
Income (Loss) Before Transfers	2,320,055
Transfers out	<u>(204,000)</u>
Change in Net Position	2,116,055
Total Net Position - Beginning of the Year	<u>19,952,479</u>
Total Net Position - End of the Year	<u><u>\$ 22,068,534</u></u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Business-Type Activities Electric Light Enterprise (December 31, 2017)
Cash Flows from Operating Activities:	
Receipts from customers	\$ 13,253,495
Payments to suppliers	(9,339,356)
Payments to employees	(2,053,217)
Operating transfers out	(204,000)
Net Cash Provided by (Used in) Operating Activities	1,656,922
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(2,791,297)
Net Cash Used in Capital and Related Financing Activities	(2,791,297)
Cash Flows from Investing Activities:	
Investment income	552,896
Investment of operating cash, net	493,060
Net Cash Provided by (Used in) Investing Activities	1,045,956
Net Change in Cash and Cash Equivalents	(88,419)
Cash and Cash Equivalents:	
Beginning of the year	2,617,817
End of the year	\$ 2,529,398
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income (Loss)	\$ 1,767,159
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Operating transfers out	(204,000)
Depreciation	664,693
Changes in assets and liabilities:	
Receivables	(645,157)
Unbilled revenue	(11,032)
Inventory	16,486
Prepaid items	(67,706)
Accounts payable	191,243
Customer deposits	96,669
Other liabilities	26,179
Other postemployment benefit liability	(168,725)
Net pension liability	(8,887)
Net Cash Provided by (Used in) Operating Activities	\$ 1,656,922

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

		(Light Department) December 31, 2017		
	Other Postemployment Benefits Trust Fund	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ 1,145,658	\$ 583,364	\$ 134,946	\$ 399,482
Investments	-	-	472,961	-
Total Assets	<u>1,145,658</u>	<u>583,364</u>	<u>607,907</u>	<u>399,482</u>
Liabilities				
Agency liabilities	-	-	-	399,482
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,482</u>
Net Position				
Held in trust for other postemployment benefits	1,145,658	583,364	-	-
Held in trust for private purposes	-	-	607,907	-
Total Net Position	<u>\$ 1,145,658</u>	<u>\$ 583,364</u>	<u>\$ 607,907</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

		(Light Department) December 31, 2017	
	Other Postemployment Benefits Trust Fund	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
Additions			
Contributions:			
Employer	\$ 615,578	\$ 250,000	\$ -
Other	-	-	2,730
Total contributions	615,578	250,000	2,730
Investment income:			
Interest and dividends	96,789	72,781	38,521
Total Additions	712,367	322,781	41,251
Deductions			
Education - scholarships	-	-	3,000
Public safety			6,953
Health and human services	-	-	19,818
Retiree benefits	565,578	-	-
Total Deductions	565,578	-	29,771
CHANGE IN NET POSITION	146,789	322,781	11,480
NET POSITION AT BEGINNING OF YEAR	998,868	260,583	596,427
NET POSITION AT END OF YEAR	\$ 1,145,657	\$ 583,364	\$ 607,907

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located approximately twenty miles north of Boston. It is bordered by the Towns of North Reading, North Andover, Boxford, Topsfield, Danvers, Peabody and Lynnfield. The Town was settled in 1659 and incorporated as a Town in 1728; and uses the open town meeting form of government. It is governed by a five-member elected Board of Selectmen with an appointed Town Administrator. Members of the Town’s Board of Selectmen serve three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, utility services, street maintenance, parks and recreational facilities.

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

The Town is a member community of the Masconomet Regional School District that provides educational services in grades 7 to 12 to the Towns of Middleton, Topsfield and Boxford. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2018, the Town’s share of the operating and debt service expenses was \$9,805,701. Complete audited financial statements can be obtained directly from the District’s administrative office located at 20 Endicott Road, Topsfield, Massachusetts 01983.

The Town is a member community of the Essex North Shore Agricultural and Technical School District that provides educational services in grades 9 to 12 to many area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2018, the Town’s share of the operating and debt service expenses was \$619,758. Complete audited financial statements can be obtained directly from the District’s administrative office located at 565 Maple Street, Hathorne, Massachusetts 01937.

The Town does not have an equity interest in either of the joint ventures.

B. Government-Wide and Fund Financial Statements

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

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

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

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

In addition, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available*

when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The government reports the following major governmental funds:

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

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of

salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Light Department – accounts for user charges collected to finance costs associated with providing electric power to the Town’s residents and businesses.

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

The government reports the following fiduciary funds:

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

Private-Purpose Trust Fund – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used primarily for public assistance and scholarships.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details and developer deposits. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

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

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

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

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

Real estate taxes that are secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

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

both government-wide and fund financial statements. The Light Department's prepaid items represent a deposit used to facilitate timely payments of certain monthly power invoices.

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

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

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	7 to 40 years
Land improvements	20 to 30 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 100 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

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

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured. For governmental activities, the liability for compensated absences is not material and is therefore not reported in these financial statements.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town only has one type of item that qualifies for reporting as a deferred outflow of resources reported on the government-wide statement of net position that relates to outflows from changes in the net pension liability. These outflows will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items which qualify for reporting in this category. The first arises under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of item that qualifies for reporting as a deferred outflow is reported on the government-wide statement of net position. This relates to outflows from changes in the net pension liability which will be recognized in pension expense in future years as more fully described in Note III, subsection A.

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

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

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

Expendable permanent funds represent the spendable portion of donor restricted trusts that support governmental programs.

Grants and gifts represent assets that have restrictions placed on them from federal and state granting agencies, donors and other outside parties for specific governmental programs and uses.

Other specific purposes represent assets that are restricted by third parties for specific governmental programs and uses.

Fund Equity – The Town presents its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

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

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

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

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

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

Encumbrances – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported

separately. The Town reports \$314,508 of encumbrances from normal purchasing activity in the general fund as assigned and \$541,351 of encumbrances from Town Meeting Articles in the general fund as committed. There are no encumbrances reported in any other fund.

Stabilization Funds – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. At June 30, 2018, the Town reported a balance in its stabilization fund of \$2,041,833, which is reported as unassigned in the general fund.

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

	General	Capital Projects	Nonmajor Governmental	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 163,903	\$ 163,903
Restricted:				
School revolving	-	-	606,361	606,361
Federal and state grants	-	-	239,301	239,301
Ambulance services	-	-	966,373	966,373
Gift funds	-	-	147,501	147,501
Septic betterments	-	-	69,505	69,505
Cable access programming	-	-	484,251	484,251
Water services	-	-	891,896	891,896
Community preservation	-	-	816,623	816,623
Other capital outlay	-	162,945	-	162,945
Cemetery trust funds	-	-	43,635	43,635
Other trust funds	-	-	79,227	79,227
Debt service	387,660	-	-	387,660
Other purposes	-	-	646,438	646,438
Committed:				
General government	297,242	-	-	297,242
Public works	57,497	-	-	57,497
Public safety	63,811	-	-	63,811
Education	122,801	-	-	122,801
Assigned:				
Purchase orders	314,508	-	-	314,508
Subsequent years' budget	1,017,858	-	-	1,017,858
Unassigned	4,579,809	-	-	4,579,809
	<u>\$ 6,841,186</u>	<u>\$ 162,945</u>	<u>\$ 5,155,014</u>	<u>\$ 12,159,145</u>

E. Excess of Expenditures Over Appropriations and Fund Deficits

The Town incurred no deficits in the current year.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2018, the Town, excluding the Light Department, had bank deposits totaling \$9,432,446 with a carrying value of \$9,572,347. Of the bank balance, \$3,982,262 were not insured by the Federal Deposit Insurance Corporation ("FDIC"), the depositors' insurance fund or collateralization agreements and were therefore exposed to custodial credit risk.

At December 31, 2017, the Light Department had bank deposits totaling \$2,443,894 with carrying values of \$2,529,398. These are held by the Town Treasurer and are pooled with other Town deposits accordingly it is not possible to determine the level of insurance and collateralization related specifically to these deposits.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town or Light Department may not be able to recover the full amount of its principal investment and/or investment earnings. The Town's investment in the MMDT and PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town's investments in United States governmental obligations, bond and equity mutual funds and other investment funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town's investments in negotiable certificates of deposit are fully insured by the FDIC. The Town's investment in a repurchase agreement is held by a counterparty, but not in the Town's name. The repurchase agreement is fully collateralized with U.S. government securities.

The Light Department's investments in equities totaling \$3,256,013 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

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

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

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

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

	6/30/18	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Corporate fixed income securities	\$ 925,439	\$ 925,439	\$ -	\$ -
U.S. government obligations	805,025	805,025	-	-
Certificates of deposit	943,724	-	943,724	-
Repurchase agreements	173,698	-	173,698	-
State treasurer's PRIT fund	1,145,657	-	1,145,657	-
Total debt securities	3,993,543	1,730,464	2,263,079	-
Equity securities:				
Common stock	145,562	145,562	-	-
Equity mutual funds	345,845	345,845	-	-
Other investment funds	89,921	-	89,921	-
Total equity securities	581,328	491,407	89,921	-
Total investments by fair value level	\$ 4,574,871	\$ 2,221,871	\$ 2,353,000	\$ -
Investments measured at amortized costs				
Massachusetts Municipal Depository Trust	2,109,667			
Total investments	6,684,538			

U.S government obligations, bond mutual funds and equity mutual funds are classified in Level 1 and are valued using prices quoted in active markets for those securities, while the remaining investments are classified in Level 2. Negotiable certificates of deposit and repurchase agreements are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. Other investment mutual funds are valued based on the published fair value per share (unit) for each fund. The State Treasurer's PRIT fund is valued based on the composition

and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

At December 31, 2017, the light department's investments are categorized as follows: Level 1 - \$1,109,776 US government securities, \$3,256,013 equities and \$666,497 mutual and money market funds; Level 2 - \$2,184,060 municipal bonds and \$1,414,154 corporate bonds; \$1,058,263 certificates of deposit are not classified.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Investments	6/30/18	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Corporate fixed income securities	\$ 925,439	\$ 649,199	\$ 276,240	\$ -
U.S. government obligations	805,025	545,375	259,650	-
Massachusetts Municipal Depository Trust	2,109,667	2,109,667	-	-
Certificates of deposit	943,724	545,000	398,724	-
Total investments with maturities	<u>\$ 4,783,855</u>	<u>\$ 3,849,241</u>	<u>\$ 934,614</u>	<u>\$ -</u>

The Light Department had investments as follows 1) US Government Securities, \$264,165 between two and five and \$845,611 beyond five years; 2) for certificates of deposit, \$9,937 between one and two years, \$444,578 between two and five years and \$603,748 beyond five years; 3) for municipal bonds \$439,574 between two and five years and \$1,749,658 beyond five years; and 4) for corporate bonds \$519,265 between two and five years and \$894,889 beyond five years.

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2018, Town has 32% of its investments in MMDT, 17% in the PRIT fund, 11% in mutual funds and 7% repurchase agreements collateralized with U. S. government backed securities.

Credit Risk – The Town has not adopted a formal policy related to credit risk. The Town's investments in U.S. government obligations are rated Aaa by Moody's and the remaining investments are unrated.

The Light Department's U.S. government securities are rated Aaa by Moody's and AA+ by Standards and Poor's. All municipal bonds are rated as AA+ by Standards and Poor's. Municipal bonds are rated \$341,205 as AAA and \$1,842,855 as AA to A and corporate bonds are rated \$97,312 as AAA, \$890,458 as AA to A and \$426,384 are rated BBB by Standards and Poor's. Mutual funds, money market funds and certificates of deposit are not rated.

B. Receivables

Receivables as of June 30, 2018 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 341,912	\$ -	\$ 341,912
Tax liens and deferrals	347,996	-	347,996
Tax foreclosures	519,079	-	519,079
Community preservation surcharges	4,962	-	4,962
Motor vehicle and other excise taxes	171,877	-	171,877
User charges	12,499	-	12,499
Ambulance fees	553,569	(221,428)	332,141
Other	28,011	-	28,011
Total	<u>\$ 1,979,905</u>	<u>\$ (221,428)</u>	<u>\$ 1,758,477</u>

Receivables at year-end for the Town's Electric Light Department Enterprise Fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Customer accounts receivable	\$ 1,356,880	\$ (52,181)	\$ 1,304,699
Other accounts receivable	763,770	-	763,770
Unbilled revenue	161,530	-	161,530
Purchased power credits receivable	28,981	-	28,981
Total	<u>\$ 2,311,161</u>	<u>\$ (52,181)</u>	<u>\$ 2,258,980</u>

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

	General Fund	Other Governmental	Total
Receivable type:			
Real estate and personal property taxes	\$ 341,912	\$ -	\$ 341,912
Tax liens and deferrals	347,996	-	347,996
Tax foreclosures	519,079	-	519,079
Motor vehicle and other excise taxes	171,877	-	171,877
User charges	12,499	-	12,499
Community preservation surcharges	-	4,962	4,962
Ambulance fees	-	332,141	332,141
Other	15,704	12,307	28,011
Total	<u>\$ 1,409,067</u>	<u>\$ 349,410</u>	<u>\$ 1,758,477</u>

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 (December 31, 2017 for Electric Light Department) was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 6,583,884	\$ -	\$ -	\$ 6,583,884
Construction in process	546,743	42,967	(344,550)	245,160
Total capital assets not being depreciated	7,130,627	42,967	(344,550)	6,829,044
Capital assets being depreciated:				
Land improvements	1,877,312	10,995	-	1,888,307
Buildings and improvements	44,550,364	132,772	-	44,683,136
Machinery and equipment	6,920,041	298,423	(311,731)	6,906,733
Infrastructure	29,693,302	828,404	-	30,521,706
Total capital assets being depreciated	83,041,019	1,270,594	(311,731)	83,999,882
Less accumulated depreciation for:				
Land improvements	(992,378)	(54,410)	-	(1,046,788)
Buildings and improvements	(13,626,655)	(1,171,897)	-	(14,798,552)
Machinery and equipment	(4,449,016)	(424,879)	311,731	(4,562,164)
Infrastructure	(14,184,175)	(640,217)	-	(14,824,392)
Total accumulated depreciation	(33,252,224)	(2,291,403)	311,731	(35,231,896)
Total capital assets being depreciated, net	49,788,795	(1,020,809)	-	48,767,986
Total governmental activities capital assets, net	\$ 56,919,422	\$ (977,842)	\$ (344,550)	\$ 55,597,030
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 327,323	\$ 1,846,756	\$ -	\$ 2,174,079
Capital assets being depreciated:				
Buildings and improvements	1,264,875	8,053	-	1,272,928
Machinery and equipment	2,472,521	306,219	(258,001)	2,520,739
Infrastructure	16,971,702	630,270	(95,003)	17,506,969
Total capital assets being depreciated	20,709,098	944,542	(353,004)	21,300,636
Less accumulated depreciation for:				
Buildings and improvements	(580,217)	(25,460)	-	(605,677)
Machinery and equipment	(1,881,779)	(109,461)	258,001	(1,733,239)
Infrastructure	(9,108,764)	(529,772)	95,001	(9,543,535)
Total accumulated depreciation	(11,570,760)	(664,693)	353,002	(11,882,451)
Total capital assets being depreciated, net	9,138,338	279,849	(2)	9,418,185
Total business-type activities capital assets, net	\$ 9,465,661	\$ 2,126,605	\$ (2)	\$ 11,592,264

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 92,876	Light Department	\$ 664,693
Public safety	232,045		<u>\$ 664,693</u>
Education	959,320		
Public works	802,523		
Health and human services	7,746		
Culture and recreation	196,894		
	<u>\$ 2,291,403</u>		

D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 140,342	\$ 140,342 (1)
Nonmajor Governmental Funds	749,401	-	749,401 (2)
Electric Light Enterprise Fund	204,000	-	204,000 (2)
Total	<u>\$ 953,401</u>	<u>\$ 140,342</u>	<u>\$ 1,093,743</u>

(1) Transfers to nonmajor funds to fund revolving funds.

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

E. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes (“GANS”). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and generally carry maturity dates of less than one year and are interest bearing and will be paid through future issuance of general obligation bonds.

The Town did not borrow on a temporary basis during fiscal year 2018.

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations related to personnel costs.

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

The following table reflects the activity in the Town’s long-term liability accounts during the fiscal year ended June 30, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 15,859,024	\$ -	\$ (968,063)	\$ 14,890,961	\$ 968,063
Unamortized bond premium	371,774	-	(43,587)	328,187	41,421
Landfill closure	945,000	-	(52,500)	892,500	52,500
Net pension liability	15,664,208	1,446,750	(1,309,114)	15,801,844	-
Other postemployment benefits	19,995,896	1,618,761	(610,717)	21,003,940	-
Total Governmental Activities	<u>\$ 52,835,902</u>	<u>\$ 3,065,511</u>	<u>\$ (2,983,981)</u>	<u>\$ 52,917,432</u>	<u>\$ 1,061,984</u>
<i>Business-Type Activities - MELD:</i>					
Compensated absences	\$ 75,842	\$ -	\$ (8,888)	\$ 66,954	\$ -
Net pension liability	3,842,901	-	-	3,842,901	-
Other postemployment benefits	524,473	99,806	(268,531)	355,748	-
Total Business-Type Activities	<u>\$ 4,443,216</u>	<u>\$ 99,806</u>	<u>\$ (277,419)</u>	<u>\$ 4,265,603</u>	<u>\$ -</u>

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the Electric Light Department Enterprise Fund.

The following is a summary of outstanding long-term debt obligations as of June 30, 2018:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.30 - 5.00%	\$ 14,450,000	\$ -	\$ (850,000)	\$ 13,600,000
General Obligation Bonds	2.50 - 3.00%	1,312,000	-	(102,000)	1,210,000
Federal Home Loan Bonds	5.00%	54,200	-	(9,800)	44,400
Massachusetts Clean Water Trust Notes	3.00 - 5.25%	42,824	-	(6,263)	36,561
Total Governmental Activities		15,859,024	-	(968,063)	14,890,961
Add: Unamortized bond premium		371,774	-	(43,587)	328,187
Total Governmental Activities, net		<u>\$ 16,230,798</u>	<u>\$ -</u>	<u>\$ (1,011,650)</u>	<u>\$ 15,219,148</u>

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

Year Ending June 30,	<i>Governmental Activities</i>						
	Principal			Interest			Total
	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy	
2019	986,063	-	986,063	470,906	(1,196)	469,710	1,455,773
2020	1,001,063	-	1,001,063	439,838	(933)	438,905	1,439,968
2021	1,021,063	-	1,021,063	404,807	(670)	404,137	1,425,200
2022	1,046,186	-	1,046,186	365,556	(404)	365,152	1,411,338
2023	1,071,586	-	1,071,586	324,965	(135)	324,830	1,396,416
2024 - 2028	5,205,000	-	5,205,000	1,094,433	-	1,094,433	6,299,433
2029 - 2033	4,560,000	-	4,560,000	343,950	-	343,950	4,903,950
Total	<u>\$14,890,961</u>	<u>\$ -</u>	<u>\$14,890,961</u>	<u>\$ 3,444,455</u>	<u>\$ (3,338)</u>	<u>\$ 3,441,117</u>	<u>\$18,332,078</u>

The Town is scheduled to receive \$3,338 from the Massachusetts Clean Water Trust (MCWT) to subsidize the above interest costs.

The following table summarizes authorized but unissued debt at June 30, 2018:

Project	Amount
<i>Governmental:</i>	
Septic loans	84,969
Total Authorized and Unissued	<u><u>\$ 84,969</u></u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan for the Town and other member units deemed eligible by the Essex Regional Retirement Board. The System was established under Chapter 32 of Massachusetts General Laws. Stand-alone financial statements for the year ended December 31, 2017 were issued and are available at the Retirement Office, 491 Maple Street, #202, Danvers, Massachusetts 01923.

Current membership in the System for all employers as of January 1, 2017 was as follows:

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

Benefit Terms – Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the System do not participate in the Federal Social Security Retirement System.

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

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

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

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

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

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

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2018.

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

The Town and electric light department contributed \$1,630,279 to the System in fiscal year 2018. This approximated the actuarially-determined contribution requirement for the fiscal year. The Town and electric light department's contributions as a percentage of covered payroll was approximately 22.1% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town proportionate share of the net pension liability was \$19,678,511 however this does not equal the amount recorded because the Light Department uses a year earlier measurement period. The net pension liability was measured as of January 1, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017. There were no material changes made in this update to the actuarial assumptions since the last actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 5.229% at January 1, 2018.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements.

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

Pension Expense – The Town recognized \$2,136,053 in pension expense in the statement of activities in fiscal year 2018; \$303,409 of this amount was incurred by the Light Department.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings	-	695,724
Changes in proportion differences	-	-
Changes in assumptions	1,297,377	-
Difference between expected and actual experience	-	223,626
Changes in proportion and differences between Town contributions and proportionate share of contributions	604,779	33,091
Total	1,902,156	952,441

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

<u>Year ended June 30,</u>		
2019	\$	368,420
2020		383,795
2021		175,301
2022		22,199
Total	\$	<u>949,715</u>

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2017, the Light Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings	168,338	-
Changes in proportion differences	-	-
Changes in assumptions	162,866	-
Difference between expected and actual experience	-	69,205
Changes in proportion and differences between Light contributions and proportionate share of contributions	71,676	6,010
Total	<u>402,880</u>	<u>75,215</u>

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

<u>Year ended December 31</u>		
2018	\$	90,492
2019		90,492
2020		94,145
2021		44,664
2022		7,872
Total	\$	<u>327,665</u>

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

Actuarial Valuation Date	January 1, 2018
Investment rate of return:	7.50% per annum

Projected salary increases:	Based on years of service. 7.50% year one, 6.5% year two, 6.00% year three, 5.50% year four, 5.00% year 5; 3.75% thereafter
Cost of living adjustments:	3% on the first \$14,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality
Disabled life mortality:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTAA, Risk parity	13.00%	3.94%
Private equity	12.00%	10.28%
Total Fund Expected Return/Total	100.00%	7.50%

Discount Rate – The discount rate used to measure the total pension liability was 7.50%, which represents a decrease from the 7.75% in the previous actuarial valuation. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Town’s proportionate share of the net pension liability	\$ 24,75,958	\$19,678,511	\$15,405,987

B. Massachusetts Teachers’ Retirement System

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

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

For the year ended June 30, 2018, (measured as of June 30, 2017) the Commonwealth contributed \$1,081,096 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.086596%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town’s proportionate share of the following (dollar amounts are in thousands):

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 20,025,095	\$ (20,025,095)	\$ —
Pension expense	2,090,028	(2,090,028)	—

The Town recognized \$2,090,028 in intergovernmental revenue and pension expense relative to this arrangement.

C. Risk Financing

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

D. Other Postemployment Benefits (“OPEB”)

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

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

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

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

This footnote disclosure separately presents the required disclosures into two sections as there are two different measurement dates used in the Town’s fiscal 2018 reporting.

GASB Statement No. 75

OPEB Plan disclosures that impact the Town’s net OPEB liability using a measurement date of July 1, 2017 are summarized as follows:

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

Active employees	209
Inactive employees	83
Total	<u>292</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 40% of the set premium for medical; 25% for dental, and 50% for life insurance. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis and also pays 60% of a retiree’s Medicare Part B premium. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2018, the Town’s average contribution rate was less than 5.7% of covered-employee payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of July 1, 2017 using an actuarial valuation as of July 1, 2017. The components of the net OPEB liability of the Town at June 30, 2018 were as follows:

Total OPEB Liability	\$ 22,002,808
Plan fiduciary net position	<u>(998,868)</u>
Net OPEB liability	<u>\$ 21,003,940</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.5%

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

Investment rate of return	7.04%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	3.13% as of July 1, 2017
Discount Rate	4.75%, net of OPEB plan investment expense including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return.
Inflation	2.75% annually as of July 1, 2017 and for future periods
Health Care Trend Rate	5%
Salary Increases	3.00% annually as of July 1, 2017 and for future periods
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females
Actuarial Cost Method	Individual entry age normal

Discount Rate – The discount rate used to measure the total OPEB liability was 4.75%. The only key change in assumptions from the prior year was the decrease of this discount rate from 5.00%.

Long Term Expected Rate of Return – The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	14.50%	4.00%
Domestic Equity - Small/Mid Cap	3.50%	6.00%
International Equity - Developed Market	16.00%	4.50%
International Equity - Emerging Market	6.00%	7.00%
Domestic Fixed Income	20.00%	2.00%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
Cash	0.00%	0.00%
	<u>100.00%</u>	
Real rate of return		4.79%
Inflation assumption		2.75%
Total nominal rate of return		7.54%
Investment expense		-0.50%
Net investment return		<u>7.04%</u>

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

	Discount Rate		
	1% Decrease (3.75%)	Current rate (4.75%)	1% Increase (5.75%)
Net OPEB Liability	\$ 25,655,415	\$ 22,002,808	\$ 19,075,128
Service Cost	970,286	748,856	584,763

	Health Care Rate		
	1% Decrease (4.00%)	Current rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$ 17,096,424	\$ 22,002,808	\$ 28,217,860
Service Cost	498,869	748,856	1,091,987

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 20,885,647	\$ 789,751	\$ 20,095,896
Changes for the year:			
Service cost	748,856	-	748,856
Interest	1,015,650	-	1,015,650
Difference between expected and actual experience	(136,628)	-	(136,628)
Net investment income	-	109,117	(109,117)
Employer contributions	-	610,717	(610,717)
Benefit payments withdrawn	-	(510,717)	510,717
Benefit payments	(510,717)	-	(510,717)
Net changes	1,117,161	209,117	908,044
Balances at June 30, 2018	\$ 22,002,808	\$ 998,868	\$ 21,003,940

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Town recognized OPEB expense of \$1,673,644. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ -	\$ 114,837
Differences between actual and expected experience	-	40,046
	<u>\$ -</u>	<u>\$ 154,883</u>

In addition to those amounts reflected in the table, a deferred outflow was also recorded for the additional contribution made after the measurement date in the amount of \$50,000.

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

June 30	
2019	\$ (31,803)
2020	(31,803)
2021	(31,803)
2022	(31,801)
2023	(21,791)
thereafter	<u>(5,882)</u>
	<u>\$ (154,883)</u>

GASB Statement No. 74

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

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

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

Investment Rate of Return – For the year ended June 30, 2018 the annual money-weighted rate of return on investments, net of investment expense, was 9.46%. The money-weighted rate of return

expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

	Discount Rate		
	1% Decrease (4%)	Trend Rate (5%)	1% Increase (6%)
Net OPEB Liability	\$ 26,205,060	\$ 22,552,548	\$ 19,606,949
Service Cost	1,140,772	883,961	692,542

	Health Care Rate		
	1% Decrease (4%)	Current (5%)	1% Increase (6%)
Net OPEB Liability	\$ 17,611,141	\$ 22,552,548	\$ 28,785,324
Service Cost	590,107	883,961	1,280,293

Actuarial Assumptions – Actuarial assumptions are identical to those under GASB 75 except the Municipal Bond Rate is 3.45% and the Discount Rate is 5.00%.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2018 using an actuarial valuation as of July 1, 2017.

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

Total OPEB Liability	\$ 22,552,548
Plan fiduciary net position	<u>(1,145,657)</u>
Net OPEB liability	<u><u>\$ 21,406,891</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.1%

Electric Light Department OPEB – Electric Light Department OPEB, which is not material to the overall financial statements, may be reviewed in detail in the Electric Light Department financial statements.

E. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although

the amount of liability, if any, at June 30, 2018, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018.

Grant Compliance – Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

Electric Light Department -

MELD is a Town owned utility responsible for the purchase and distribution of electric power throughout the Town of Middleton. MELD has its own Board of Commissioners elected at large by citizenry of the Town of Middleton.

MELD is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop bulk power supply for its Members and other utilities.

MMWEC is authorized to construct, own or purchase ownership interest in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt services on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of project capability to an additional amount not to exceed 25% of their original participants' share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in W.F. Wyman Unit No. 4 plant, which is owned and operated by subsidiaries of FPL Energy Wyman IV, LLC, an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, LLC), and a 4.8% ownership interest in

the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also own and operates Millstone Unit 2 nuclear unit. The operating license for Unit 3 extends to November, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook Resources, LLC (formerly FPL Energy Seabrook, LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has stated its intention to request an extension of the Seabrook Station operating license for an additional twenty years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson-Act. Originally enacted in 1957, the Act has been renewed several times. In July, 2005, as part of the Energy Policy Act of 2005, Congress extended the Price-Anderson Act until the end of 2025.

MELD has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and the PPAs, the Plant is required to make certain payments to MMWEC payable solely from Plant revenues. Under the PSAs each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

As of December 31, 2017, total capital expenditures for MMWEC's projects amounted to \$1,583,481,000 of which \$38,299,000 represents the amount associated with the Plant's Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue bonds \$10,680,000, of which \$317,000 is associated with the Plant's share of Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$11,425,000, of which \$345,000 is anticipated to be billed to the Plant in future years.

The estimated aggregate amount of the Plant's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated for future years is summarized as follows:

	For years ended	
	<u>December 31,</u>	
	2018	40,000
	2019	<u>305,000</u>
Total		<u>\$ 345,000</u>

In addition, the Plant is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Plant's total O&M costs including debt service under the PSAs were \$2,335,000 and \$3,403,000 for the years ended December 31, 2017 and 2016, respectively.

The MELD purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the MELD anticipates some stability to its power cost expenses over the next few years.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In addition, the Town acquired a parcel of land in fiscal year 2009 that was formerly used as a landfill and is responsible for post-closure testing and monitoring. Finally, the Town acquired another parcel of land that was formerly used as the Town landfill and is also responsible for the post-closure testing and monitoring of the site.

In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring and other post-closure liabilities for these three parcels, \$892,500, has been recorded as a governmental activities' liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018.

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

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

Future Implementations –

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

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

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

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

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

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

IV. Restatement

The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for*

Postemployment Benefits Other Than Pensions. The result of the adoption of GASB Statement No. 75 was to eliminate the net OPEB obligation recorded in the Town financial statements and record the net OPEB liability at June 30, 2017.

The impact is illustrated in the table below:

	<u>Governmental</u>
Net position at June 30, 2017, as reported	\$ 28,628,731
Eliminate previously recorded OPEB obligation	10,058,202
Prior year additional contribution	100,000
Record net OPEB liability	<u>(20,095,896)</u>
Net position at June 30, 2017, as restated	<u><u>\$ 18,691,037</u></u>

TOWN OF MIDDLETON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

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

(dollar amounts are in thousands)

	Year Ended June 30,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town's proportion of the net pension liability (asset)	5.23%	5.06%	4.93%
Town's proportionate share of the net pension liability (asset)	\$ 19,679	\$ 19,507	\$ 17,900
Town's covered-employee payroll	\$ 7,388	\$ 7,060	\$ 6,129
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	266.4%	276.3%	292.1%
Plan fiduciary net position as a percentage of the total pension liability	55.4%	51.1%	51.0%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	Year Ended June 30,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,628	\$ 1,467	\$ 1,258
Contributions in relation to the actuarially determined contribution	<u>1,630</u>	<u>1,468</u>	<u>1,258</u>
Contribution deficiency (excess)	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 7,388	\$ 7,060	\$ 6,129
Contributions as a percentage of covered-employee payroll	22.1%	20.8%	20.5%

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

See accompanying independent auditor's report.

TOWN OF MIDDLETON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

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

(dollar amounts are in thousands)

	Year Ended June 30,		
	2017	2016	2015
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643
Commonwealth's actuarially determined contribution	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930

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

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

See accompanying independent auditor's report.

TOWN OF MIDDLETON, MASSACHUSETTS

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

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

	June 30, 2018	June 30, 2017
Total OPEB liability:		
Service cost	\$ 883,961	\$ 845,336
Interest	1,087,561	1,012,331
Difference between expected and actual plan experience	302,431	-
Benefit payments	(565,578)	(510,717)
Net change in total OPEB liability	1,708,375	1,346,950
Total OPEB liability - beginning of year	20,844,173	20,719,298
Total OPEB liability - end of year (a)	<u>\$ 22,552,548</u>	<u>\$ 22,066,248</u>
Plan fiduciary net position:		
Contributions - employer	\$ 615,578	\$ 610,717
Net investment income	96,789	109,117
Benefit payments	(565,578)	(510,717)
Net change in Plan fiduciary net position	146,789	209,117
Plan fiduciary net position - beginning of year	998,868	789,751
Plan fiduciary net position - end of year (b)	<u>\$ 1,145,657</u>	<u>\$ 998,868</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 21,406,891</u>	<u>\$ 21,067,380</u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.08%	4.53%
Covered-employee payroll	\$ 10,733,570	\$ 10,700,000
Net OPEB liability as a percentage of covered- employee payroll	199.44%	196.89%

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

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB 74.

See independent auditors' report.

TOWN OF MIDDLETON, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	June 30, 2018	June 30, 2017
Actuarially-determined contribution	\$ 2,189,164	\$ 2,033,068
Contributions in relation to the actuarially-determined contribution	<u>(615,578)</u>	<u>(610,717)</u>
Contribution deficiency (excess)	<u>\$ 1,573,586</u>	<u>\$ 1,422,351</u>
Covered-employee payroll	\$10,733,570	\$ 10,700,000
Contribution as a percentage of covered-employee payroll	5.74%	5.71%
Valuation Date	July 1, 2017	July 1, 2017
Amortization Period	30 years	30 years
Investment rate of return	7.04%	7.04%
Municipal Bond Rate	3.45%	3.16%
Single Equivalent Discount Rate	5.00%	4.75%
Inflation	2.75%	2.75%
Healthcare cost trend rates	5.00%	5.00%
Salary increases	3.00%	3.00%
Actuarial Cost Method	Individual Entry Age Normal (for all years presented)	
Asset Valuation Method	Market Value of Assets as of Reporting Date (for all years presented)	

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

	June 30, 2018	June 30, 2017
Annual money-weighted rate of return, net of investment expense	9.46%	10.92%

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

See independent auditors' report.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance
	Original	Final	Budgetary	and continuing	Budgetary	Positive
	Budget	Budget	Amounts	appropriations	Adjusted	(Negative)
REVENUES						
Real estate and personal property taxes, net	\$27,374,111	\$27,374,111	\$ 27,503,488		\$27,503,488	\$ 129,377
Intergovernmental	2,331,696	2,331,696	2,325,935		2,325,935	(5,761)
Motor vehicle and other excises	2,200,000	2,200,000	2,478,473		2,478,473	278,473
Payments in lieu of taxes	125,000	125,000	130,693		130,693	5,693
License and permits	610,000	610,000	685,476		685,476	75,476
Departmental and other revenue	399,344	399,344	429,141		429,141	29,797
Penalties and interest on taxes	100,000	100,000	84,450		84,450	(15,550)
Fines and forfeitures	20,000	20,000	13,585		13,585	(6,415)
Investment income	40,000	40,000	77,155		77,155	37,155
Total Revenues	33,200,151	33,200,151	33,728,396	\$ -	33,728,396	528,245
EXPENDITURES						
General government	2,395,268	2,405,168	1,930,141	314,697	2,244,838	160,330
Public safety	4,330,720	4,341,720	4,003,559	245,201	4,248,760	92,960
Education	22,707,504	22,707,504	21,908,985	516,248	22,425,233	282,271
Public works	1,882,054	1,932,054	1,757,677	73,502	1,831,179	100,875
Health and human services	554,153	554,153	524,651	541	525,192	28,961
Culture and recreation	563,103	564,103	551,463	329	551,792	12,311
Fringe Benefits	2,264,712	2,275,312	2,216,072	2,500	2,218,572	56,740
State and county tax assessments	422,654	422,654	422,654	-	422,654	-
Debt service	1,358,927	1,358,927	1,358,927	-	1,358,927	-
Total Expenditures	36,479,095	36,561,595	34,674,129	1,153,018	35,827,147	734,448
OTHER FINANCING SOURCES (USES)						
Transfers in	953,401	953,401	953,401	-	953,401	-
Transfers out	(50,000)	(285,000)	(285,000)	-	(285,000)	-
Total Other Financing Sources (Uses)	903,401	668,401	668,401	-	668,401	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(2,375,543)	(2,693,043)	\$ (277,332)			\$1,262,693
Other Budgetary Items:						
Undesignated surplus (free cash)	929,616	1,247,116				
Overlay surplus	163,900	163,900				
Prior year encumbrances	1,282,027	1,282,027				
Net Budget	\$ -	\$ -				

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

TOWN OF MIDDLETON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by the Town Meeting at the Town's annual meeting in May. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each department. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

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

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 33,728,396
Stabilization revenue	\$ -	\$ 7,803	7,803
Change in accruing tax revenues	-	-	-
On behalf payments	2,090,078	-	2,090,078
Revenues on a GAAP basis	<u>\$ 2,090,078</u>	<u>\$ 7,803</u>	<u>\$ 35,826,277</u>
Expenditures on a budgetary basis			\$ 34,674,129
Change in expenditure recognition	\$ (4,922)	\$ -	(4,922)
On behalf payments	2,090,078	-	2,090,078
Expenditures on a GAAP basis	<u>\$ 2,085,156</u>	<u>\$ -</u>	<u>\$ 36,759,285</u>
Other financing sources (uses) on a budgetary basis			\$ 668,401
Unbudgeted transfer made	(5,342)	-	(5,342)
Stabilization transfers	\$ -	\$ 150,000	150,000
Other financing sources (uses) on a GAAP basis	<u>\$ (5,342)</u>	<u>\$ 150,000</u>	<u>\$ 813,059</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements (except for the Middleton Electric Light Department "the Light Department", which is as of December 31, 2017) and have issued our report thereon November 6, 2018.

We did not audit the financial statements of the Light Department, a Town Department reported as an enterprise fund and part of the Town's business-type funds. The Light Department represents 100% of each of the assets, net position, and operating revenues of the Town's business-type activities. The accompanying financial statements do not include all disclosures for the Light Department, as required by generally accepted accounting principles. Such information can be found in separately issued financial statements for the year-ended December 31, 2017, which was audited by the other auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 6, 2018