

TOWN OF BOXFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

Town of Boxford, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Boxford, Massachusetts

Additional Offices:

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 54 to 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

October 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, interest, and inter-governmental expense.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at

the end of the fiscal year. Such information may be useful in evaluating a Town'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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows by \$41,502,279 (i.e., net position), a change of \$912,719 in comparison to the prior year.
- At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,520,762, a change of \$(1,074,490) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,835,840, a change of \$191,388 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 11,988	\$ 12,093
Capital assets	<u>59,732</u>	<u>58,185</u>
Total assets	71,720	70,278
Deferred outflows	1,215	712
Current liabilities	3,346	2,557
Noncurrent liabilities	<u>27,696</u>	<u>27,719</u>
Total liabilities	31,042	30,276
Deferred inflows	391	124
Net position:		
Net investment in capital assets	50,999	50,526
Restricted	3,157	2,823
Unrestricted	<u>(12,654)</u>	<u>(12,759)</u>
Total net position	<u>\$ 41,502</u>	<u>\$ 40,590</u>

As noted earlier, net position may serve over time as a useful indicator of a Town's financial position. At the close of the most recent fiscal year, total net position was \$41,502,279, a change of \$912,719 from the prior year.

The largest portion of net position \$50,999,106 reflects our investment in capital assets (e.g., land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$3,156,855 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(12,653,682) resulting from the Town's unfunded OPEB and Net Pension liabilities.

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,717	\$ 1,634
Operating grants and contributions	4,464	3,743
Capital grants and contributions	474	1,238
General revenues:		
Property taxes	28,891	27,842
Excises	1,644	1,600
Penalties and interest on taxes	74	79
Grants and contributions not restricted to specific programs	813	979
Investment income	94	234
Other	30	31
Bond premium	-	59
Total revenues	<u>38,201</u>	<u>37,439</u>
Expenses:		
General government	2,088	1,828
Public safety	3,485	2,849
Education	27,325	23,664
Public works	2,974	2,715
Health and human services	379	313
Culture and recreation	669	493
¹ Insurance and benefits	-	2,220
Interest expense	226	245
Intergovernmental	143	150
Total expenses	<u>37,289</u>	<u>34,477</u>
Change in net position	912	2,962
Transfers in (out)	<u>-</u>	<u>(250)</u>
Change in net position	912	2,712
Net position - beginning of year	<u>40,590</u>	<u>37,878</u>
Net position - end of year	<u>\$ 41,502</u>	<u>\$ 40,590</u>

¹ Insurance and benefits allocated to other functions in 2017.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$912,719. Key elements of this change are as follows:

General fund operations (accrual basis)	\$ 732,425
Community Preservation fund change in fund balance	463,667
Boxford Common Fields fund change in fund balance (accrual basis)	76,313
Other governmental funds operations (accrual basis)	1,196,016
Principal debt service in excess of depreciation expense	(815,519)
Change in long-term liabilities	(705,719)
Other	<u>(34,464)</u>
Total	<u><u>\$ 912,719</u></u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,520,762, a change of \$(1,074,490) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures and other financing uses	\$ 287,423
Community Preservation fund revenues in excess of expenditures	463,667
Boxford common fields fund other financing sources in excess of expenditures	(2,339,032)
Nonmajor fund expenditures and other financing uses in excess of revenues and other financing sources	<u>513,452</u>
Total	<u><u>\$ (1,074,490)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,835,840, while total fund balance was \$6,538,595. As a measure of the general fund's liquidity, it may be

useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 4,835,840	\$ 4,644,452	\$ 191,388	14.0%
Total fund balance	\$ 6,538,595	\$ 6,251,172	\$ 287,423	18.9%

The total fund balance of the general fund changed by \$287,423 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 515,525
Expenditures less than budget	606,495
Use of free cash as a funding source	(1,346,295)
Prior year encumbrances in excess of current year encumbrances	(21,134)
Change in stabilization fund balance	156
Prior year snow/ice deficit raised	116,137
Other	416,539
Total	<u>\$ 287,423</u>

Included in the total general fund balance is the Town's stabilization fund with the following balance:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization fund	\$ 838,767	\$ 838,611	\$ 156

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$512,451. Major reasons for these amendments include:

- \$500,000 transfer to the Spofford School Roof capital project fund. This was approved during the May 2017 Annual Town Meeting.
- \$12,451 purchase for a Department of Public Works utility tractor. This was approved during the May 2017 Annual Town Meeting.

The entire amount of this increase was funded from free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$59,731,633 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, and infrastructure.

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

- \$2,694,503 for construction in progress, the majority of which was for the Boxford common fields project.
- \$423,421 for various machinery, equipment, and vehicles, including a highway dump truck.
- \$335,804 for infrastructure improvements including paving of roads.
- \$89,182 for various purchases of land and building improvements.
- Current year depreciation expense of \$(1,996,081).

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

Credit rating. As of June 30, 2017, the Town's Standard & Poor's credit rating is AAA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$6,772,564, all of which was backed by the full faith and credit of the Town.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Municipal Finance/Town Accountant
Town of Boxford, Massachusetts
7A Spofford Road, 2nd Floor
Boxford, Massachusetts 01921

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 8,255,597
Investments	3,474,239
Receivables, net of allowance for uncollectibles:	
Property taxes	166,513
Excises	59,120
Betterments	5,940
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	14,642
Betterments	12,306
Capital assets:	
Land and construction in progress	25,070,894
Other capital assets, net of accumulated depreciation	34,660,739
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	1,214,597
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	72,934,587
LIABILITIES	
Current:	
Warrants payable	628,181
Accrued liabilities	241,165
Tax refunds payable	3,389
Notes payable	1,250,000
Other current liabilities	93,985
Current portion of long-term liabilities:	
Bonds payable	1,028,561
Other	100,388
Noncurrent:	
Bonds payable, net of current portion	5,744,003
Net pension liability	14,092,733
Net OPEB obligation	6,537,858
Other, net of current portion	1,321,103
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	311,447
Other	79,495
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	31,432,308
NET POSITION	
Net investment in capital assets	50,999,106
Restricted for:	
Community preservation funds	1,999,136
Grants and other statutory restrictions	1,143,066
Permanent funds:	
Nonexpendable	5,182
Expendable	9,471
Unrestricted	(12,653,682)
TOTAL NET POSITION	\$ 41,502,279

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

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 2,087,770	\$ 262,166	\$ 45,072	\$ 5,324	\$ (1,775,208)
Public safety	3,484,932	413,057	75,800	158,920	(2,837,155)
Education	27,324,892	669,549	4,264,306	-	(22,391,037)
Public works	2,974,197	273,551	-	309,845	(2,390,801)
Health and human services	378,779	38,807	59,905	-	(280,067)
Culture and recreation	668,765	59,395	19,190	-	(590,180)
Interest	225,965	-	-	-	(225,965)
Intergovernmental	142,861	-	-	-	(142,861)
Total Governmental Activities	<u>\$ 37,288,161</u>	<u>\$ 1,716,525</u>	<u>\$ 4,464,273</u>	<u>\$ 474,089</u>	(30,633,274)
General Revenues:					
					28,891,291
Property taxes					1,643,922
Excises					74,275
Penalties, interest and other taxes					812,845
Grants and contributions not restricted to specific programs					93,508
Investment income					30,152
Miscellaneous					
Total general revenues					<u>31,545,993</u>
Change in Net Position					912,719
Net Position:					
Beginning of year					<u>40,589,560</u>
End of year					<u>\$ 41,502,279</u>

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

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Community Preservation Fund	Boxford Common Fields Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 6,248,311	\$ 80,920	\$ 397,012	\$ 1,529,354	\$ 8,255,597
Investments	1,247,341	1,920,233	-	306,665	3,474,239
Receivables:					
Property taxes	177,883	3,271	-	-	181,154
Excises	73,957	-	-	-	73,957
Other	18,246	-	-	-	18,246
TOTAL ASSETS	\$ 7,765,738	\$ 2,004,424	\$ 397,012	\$ 1,836,019	\$ 12,003,193
LIABILITIES					
Warrants payable	\$ 628,181	\$ -	\$ -	\$ -	\$ 628,181
Accrued liabilities	202,160	-	-	-	202,160
Tax refunds payable	3,389	-	-	-	3,389
Notes payable	-	-	1,250,000	-	1,250,000
Other liabilities	93,985	-	-	-	93,985
TOTAL LIABILITIES	927,715	-	1,250,000	-	2,177,715
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	299,428	5,288	-	-	304,716
FUND BALANCES					
Nonspendable	-	-	-	5,182	5,182
Restricted	-	1,999,136	-	1,336,853	3,335,989
Committed	496,213	-	-	542,724	1,038,937
Assigned	1,206,542	-	-	-	1,206,542
Unassigned	4,835,840	-	(852,988)	(48,740)	3,934,112
TOTAL FUND BALANCES	6,538,595	1,999,136	(852,988)	1,836,019	9,520,762
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,765,738	\$ 2,004,424	\$ 397,012	\$ 1,836,019	\$ 12,003,193

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

TOWN OF BOXFORD, MASSACHUSETTS

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

JUNE 30, 2017

Total governmental fund balances	\$ 9,520,762
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	59,731,633
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	210,385
• Long-term liabilities, including bonds payable, net OPEB obligation, and net pension liability are not payable in the current period and, therefore, are not reported in the governmental funds.	(27,921,496)
• Other	<u>(39,005)</u>
Net position of governmental activities	<u><u>\$ 41,502,279</u></u>

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

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	General <u>Fund</u>	Community Preservation <u>Fund</u>	Boxford Common Fields <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:					
Property taxes	\$ 28,223,549	\$ 677,321	\$ -	\$ -	\$ 28,900,870
Excises	1,647,138	-	-	-	1,647,138
Penalties, interest and other taxes	73,425	851	-	-	74,276
Charges for services	447,426	-	-	812,234	1,259,660
Licenses and permits	415,821	-	-	-	415,821
Intergovernmental	4,518,638	176,823	-	946,488	5,641,949
Fines and forfeitures	51,018	-	-	-	51,018
Investment income	54,976	35,394	-	3,648	94,018
Miscellaneous	1,709	1,499	-	125,718	128,926
Total Revenues	35,433,700	891,888	-	1,888,088	38,213,676
Expenditures:					
Current:					
General government	1,668,354	28,849	6,856	17,982	1,722,041
Public safety	2,631,425	-	-	206,005	2,837,430
Education	23,826,106	-	-	1,087,126	24,913,232
Public works	2,001,325	-	-	301,595	2,302,920
Health and human services	295,986	-	-	75,742	371,728
Culture and recreation	458,647	-	2,446,897	74,951	2,980,495
Employee benefits	2,551,581	-	-	-	2,551,581
Debt service	1,066,506	399,372	-	-	1,465,878
Intergovernmental	142,861	-	-	-	142,861
Total Expenditures	34,642,791	428,221	2,453,753	1,763,401	39,288,166
Excess (deficiency) of revenues over expenditures	790,909	463,667	(2,453,753)	124,687	(1,074,490)
Other Financing Sources (Uses):					
Transfers in	194,459	-	114,721	697,945	1,007,125
Transfers out	(697,945)	-	-	(309,180)	(1,007,125)
Total Other Financing Sources (Uses)	(503,486)	-	114,721	388,765	-
Change in fund balance	287,423	463,667	(2,339,032)	513,452	(1,074,490)
Fund Balance, at Beginning of Year,	6,251,172	1,535,469	1,486,044	1,322,567	10,595,252
Fund Balance, at End of Year	\$ 6,538,595	\$ 1,999,136	\$ (852,988)	\$ 1,836,019	\$ 9,520,762

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

TOWN OF BOXFORD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - total governmental funds \$ (1,074,490)

- 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:

Capital outlay	3,542,910
Depreciation	(1,996,081)

- The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayments of debt	1,180,562
Change in net pension liability	(549,853)
Change in net OPEB liability	(204,294)
Other	25,619

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.

(18,824)

- Other differences.

7,170

Change in net position of governmental activities \$ 912,719

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

TOWN OF BOXFORD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and other sources:				
Property taxes	\$ 27,807,011	\$ 27,807,011	\$ 27,807,011	\$ -
Excises	1,375,000	1,375,000	1,647,138	272,138
Interest, penalties, and other taxes	75,000	75,000	73,425	(1,575)
Charges for services	225,000	225,000	447,426	222,426
Licenses and permits	445,000	445,000	415,821	(29,179)
Intergovernmental	2,349,550	2,349,550	2,340,071	(9,479)
Fines and forfeitures	53,000	53,000	51,018	(1,982)
Investment income	75,000	75,000	54,819	(20,181)
Miscellaneous	27,000	27,000	1,710	(25,290)
Transfers in	-	-	108,647	108,647
Use of fund balance	833,844	1,346,295	1,346,295	-
Total Revenues and Other Sources	33,265,405	33,777,856	34,293,381	515,525
Expenditures and other uses:				
General government	1,987,867	1,852,258	1,661,719	190,539
Public safety	2,735,914	2,784,890	2,707,489	77,401
Education	22,010,683	21,865,683	21,634,793	230,890
Public works	1,790,817	1,870,751	1,986,382	(115,631)
Health and human services	300,607	303,677	282,788	20,889
Culture and recreation	471,765	473,165	458,377	14,788
Employee benefits	2,703,749	2,710,484	2,554,217	156,267
Debt service	928,656	928,656	928,653	3
Intergovernmental	174,210	174,210	142,861	31,349
Snow/ice deficit raised on recap	116,137	116,137	116,137	-
Transfers out	45,000	697,945	697,945	-
Total Expenditures	33,265,405	33,777,856	33,171,361	606,495
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,122,020	\$ 1,122,020

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

TOWN OF BOXFORD, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ -	\$ 5,409	\$ 53,331
Investments	1,659,410	59,436	21,195
Accountants receivable	<u>-</u>	<u>-</u>	<u>17,879</u>
Total Assets	1,659,410	64,845	92,405
LIABILITIES AND NET POSITION			
Deposits held in escrow	-	-	59,108
Student activity funds	<u>-</u>	<u>-</u>	<u>33,297</u>
Total Liabilities	-	-	92,405
NET POSITION			
Restricted for:			
Endowment	-	12,948	-
Unrestricted	<u>1,659,410</u>	<u>51,897</u>	<u>-</u>
Total net position held in trust	\$ <u><u>1,659,410</u></u>	\$ <u><u>64,845</u></u>	\$ <u><u>-</u></u>

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

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

	Other Post Employment Benefits <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employers	\$ 797,053	\$ -
Other	<u>-</u>	<u>15,128</u>
Total contributions	797,053	15,128
Investment Income (Loss):		
Interest	-	173
Increase (decrease) in fair value of investments	<u>187,870</u>	<u>-</u>
Net investment income (loss)	<u>187,870</u>	<u>173</u>
Total additions	984,923	15,301
Deductions:		
Benefit payments to plan members, beneficiaries and other systems	497,053	-
Education	<u>-</u>	<u>8,800</u>
Total deductions	<u>497,053</u>	<u>8,800</u>
Net increase (decrease)	487,870	6,501
Net position:		
Beginning of year	<u>1,171,540</u>	<u>58,344</u>
End of year	<u>\$ 1,659,410</u>	<u>\$ 64,845</u>

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

TOWN OF BOXFORD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* is used to account for revenues and expenditures related to the levy of a three percent property tax surcharge that is authorized by the Community Preservation Act. This fund was established by the Town for the purpose of acquiring open land for conservation, developing affordable housing, and preserving historical property.

- The *Boxford Common Fields Fund* is a capital project fund used to account for activity associated with the construction of two multi-use fields.

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

The Town reports the following fiduciary funds:

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the General Fund, Community Preservation Fund and Town Trust Funds consist of bank certificates of deposit, corporate bonds, marketable securities, and U.S. Treasury/Agency securities. Investments for the OPEB Trust Fund are in the custody of the Pension Reserves Investment Management Board (PRIM). PRIM acts as trustee for investments held in the State Retirees Benefits Trust Fund (SRBT), a pooled investment fund created by legislation (Chapter 661 of the Acts of 1983). All investments are carried at fair value except certificates of deposit which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth) unless an override or debt exemption is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$1,042,974.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost that exceeds \$5,000 to \$100,000, depending on the asset's category, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50
Vehicles	6
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Town's policy to permit eligible employees to accumulate earned but unused vacation, sick pay, and retirement benefits. All vested sick, vacation,

and retirement pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

Formal budgetary integration is employed as a management control device during the year for the general fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 35,433,700	\$ 34,642,791
Other financing sources/uses (GAAP basis)	<u>194,459</u>	<u>697,945</u>
Subtotal (GAAP Basis)	35,628,159	35,340,736
Adjust tax revenue to accrual basis	(416,538)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(742,495)
Add end of year appropriation carryforwards to expenditures	-	721,362
Record budgeted use of free cash	1,346,295	-
Reverse effect of non-budgeted State contributions for teachers' retirement	(2,178,567)	(2,178,567)
Record raising of prior year's snow and ice deficit	-	116,137
Reverse effects of combining general fund and stabilization fund (GASB54)	(156)	-
Reverse effect of other non-budgeted activity	<u>(85,812)</u>	<u>(85,812)</u>
Budgetary basis	<u>\$ 34,293,381</u>	<u>\$ 33,171,361</u>

D. Deficit Fund Equity

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

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

3. Cash and Short-Term Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's policy is to minimize custodial credit risk by limiting unsecured bank deposits to no more than 5% of an institution's assets and no more than 10% of the Town's total cash.

As of June 30, 2017, \$176,438 of the Town's bank balance of \$8,682,096 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. Investments are governed by Massachusetts General Laws, Chapter 44, Sections 54 and 55, and by the Town's investment policy, which is in full compliance with these laws. The Town's investment policy allows unlimited investment in United States Treasury and Agency obligations, as these investments carry an Aaa rating. All other investments must be in investment grade securities, a high concentration of which must be rated A or above. As of June 30, 2017, all of the Town's investments are in compliance with these policies.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>				
				<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>
Certificates of deposit	\$ 1,253	N/A	\$ 1,253	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury notes	499	N/A	-	499	-	-	-	-
Federal agency securities	425	N/A	-	425	-	-	-	-
Corporate bonds	450	N/A	-	-	125	40	35	250
Corporate equities	756	N/A	756	-	-	-	-	-
Mutual funds	172	N/A	172	-	-	-	-	-
PRIT*	<u>1,659</u>	N/A	<u>1,659</u>	-	-	-	-	-
Total investments	<u>\$ 5,214</u>		<u>\$ 3,840</u>	<u>\$ 924</u>	<u>\$ 125</u>	<u>\$ 40</u>	<u>\$ 35</u>	<u>\$ 250</u>

*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust (PRIT) is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Town reviews its investment firms' financial statements and the background of sales representatives, which limits exposure to only those institutions with proven financial strength, capital adequacy, and an overall affirmative reputation in the municipal industry. The Town's investment policy also requires that all securities be held in the Town's

name and federal tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. In addition, as of June 30, 2017, all of the Town's investments were held in financial institutions that are members of the Securities Investor Protection Corporation (SIPC).

As of June 30, 2017, none of the Town's investments were subject to custodial credit risk.

C. Concentration of Credit Risk

The Town's policy to limit the amount the Town may invest in any one issuer is a diversification concept that prohibits the over-concentration of investments in a specific instrument-type and issuer by limiting investments (other than U.S. treasuries, government agency securities, and mutual funds) to no more than 5% of an institution's assets and no more than 10% of the Town's cash.

The Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy includes a diversification concept that prohibits the over-concentration of investment maturities; however, the Town places no limit on the length of maturity from date of purchase for Community Preservation, Stabilization, and Trust funds that are invested in U.S. Treasuries or U.S. Agency obligations that may be sold prior to maturity. As of June 30, 2017, the Town's investments are in compliance with these policies.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>	Investment Maturities (in Years)	
		Less	
		<u>Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 1,253	\$ 1,006	\$ 247
U.S. Treasury notes	499	-	499
Federal agency securities	425	-	425
Corporate bonds	450	265	185
Total	<u>\$ 2,627</u>	<u>\$ 1,271</u>	<u>\$ 1,356</u>

E. Fair Value

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

The Town has the following fair value measurements as of June 30, 2017 (in thousands):

<u>Description</u>		<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 499	\$ -	\$ 499	\$ -
Federal agencies	425	\$ -	\$ 425	\$ -
Corporate bonds	450	\$ -	\$ 450	\$ -
Equity securities:				
Various securities	756	\$ 756	\$ -	\$ -
Mutual funds	172	\$ 172	\$ -	\$ -
Investments measured at the net asset value (NAV):				
External investment pool	<u>1,659</u>			
Total	<u>\$ 3,961</u>			

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 1,659	\$ -	Monthly	30 days

5. Taxes and Excises Receivables

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

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property.

The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

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

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 154,142	\$ -	\$ 154,142
Personal property taxes	445	-	445
Tax liens	23,296	-	23,296
Other	3,271	-	3,271
Total property taxes	181,154	-	181,154
Motor vehicle excise	73,957	(14,837)	59,120
Total excises	73,957	(14,837)	59,120
Grand total	\$ 255,111	\$ (14,837)	\$ 240,274

6. Interfund Fund Accounts

Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 194,459	\$ 697,945
Boxford Common Fields - Major Fund	114,721	-
Nonmajor Funds:		
Special Revenue Funds:	145,000	209,321
Capital Project Funds:	507,945	99,859
Expendable Trust Funds	45,000	-
Subtotal Nonmajor Funds	697,945	309,180
Grand Total	\$ 1,007,125	\$ 1,007,125

7. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 464	\$ -	\$ -	\$ 464
Buildings and building improvements	22,273	98	-	22,371
Machinery, equipment, and vehicles	5,544	423	-	5,967
Infrastructure	<u>34,702</u>	<u>345</u>	<u>-</u>	<u>35,047</u>
Total capital assets, being depreciated	62,983	866	-	63,849
Less accumulated depreciation for:				
Land improvements	(188)	(22)	-	(210)
Buildings and building improvements	(9,560)	(635)	-	(10,195)
Machinery, equipment, and vehicles	(3,119)	(447)	-	(3,566)
Infrastructure	<u>(14,325)</u>	<u>(892)</u>	<u>-</u>	<u>(15,217)</u>
Total accumulated depreciation	<u>(27,192)</u>	<u>(1,996)</u>	<u>-</u>	<u>(29,188)</u>
Total capital assets, being depreciated, net	35,791	(1,130)	-	34,661
Capital assets, not being depreciated:				
Land	20,581	7	-	20,588
Construction in progress	<u>1,813</u>	<u>2,695</u>	<u>(25)</u>	<u>4,483</u>
Total capital assets, not being depreciated	<u>22,394</u>	<u>2,702</u>	<u>(25)</u>	<u>25,071</u>
Governmental activities capital assets, net	<u>\$ 58,185</u>	<u>\$ 1,572</u>	<u>\$ (25)</u>	<u>\$ 59,732</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 224
Public safety	315
Education	397
Public works	1,036
Human services	2
Culture and recreation	<u>22</u>
Total depreciation expense - governmental activities	<u>\$ 1,996</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of

resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 17.

9. Warrants Payable

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

10. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the State Appellate Tax Board.

11. Notes Payable

The Town had the following notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/17</u>
Boxford common fields	0.95%	10/07/16	10/06/17	\$ <u>1,250,000</u>
Total				\$ <u><u>1,250,000</u></u>

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

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Boxford common fields	\$ <u>-</u>	\$ <u>1,250,000</u>	\$ <u>-</u>	\$ <u>1,250,000</u>
Total	\$ <u><u>-</u></u>	\$ <u><u>1,250,000</u></u>	\$ <u><u>-</u></u>	\$ <u><u>1,250,000</u></u>

12. Long-Term Debt

A. General Obligation Bonds

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

	Amount of Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Governmental Activities:</u>				
<u>Bonds payable - Inside the Debt Limit</u>				
Fire truck refunding	\$ 60,000	08/15/17	0.91%	\$ 15,000
Police station refunding	1,367,000	08/15/20	1.18%	577,000
Town Hall construction refunding	1,955,000	08/15/22	1.36%	1,260,000
Sawyer/Richardson land refunding	1,393,000	08/15/22	1.38%	908,000
Spofford Pond Road drainage refunding	85,000	08/15/22	1.35%	55,000
Anvil Farm land acquisition	850,000	06/15/26	3.90%	405,000
Haynes land acquisition	1,900,000	06/15/27	3.94%	1,000,000
Lincoln Hall building renovations	675,000	06/15/27	3.93%	350,000
School remodeling	355,000	09/15/27	1.60%	255,000
Land acquisition	190,000	09/15/27	1.55%	130,000
Fire truck	430,000	09/15/27	1.70%	330,000
Dump truck	205,000	09/15/22	1.24%	120,000
Land acquisition	86,000	10/01/25	1.78%	77,400
Library Design Plans	222,000	10/01/18	0.75%	146,000
Fire Station Floor Drain/Tank Replacement	102,000	10/01/25	1.79%	91,800
Wood School Interior Renovations	667,000	10/01/25	1.81%	601,300
<u>Bonds payable - Outside the Debt Limit</u>				
Title V MWPAT - Loan 1	200,000	08/01/18	0.00%	21,736
Title V MWPAT - Loan 2	48,524	02/01/21	0.00%	10,828
Water treatment plant	400,000	09/15/27	1.70%	305,000
Wood School Exterior Renovations	125,000	10/01/25	1.82%	113,500
Total Governmental Activities:	\$ <u>11,315,524</u>			\$ <u>6,772,564</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,028,561	\$ 194,688	\$ 1,223,249
2019	1,008,562	160,788	1,169,350
2020	917,693	130,088	1,047,781
2021	907,748	101,088	1,008,836
2022	755,000	83,513	838,513
2023 - 2027	2,055,000	202,151	2,257,151
2028 - 2032	100,000	1,463	101,463
Total	\$ <u>6,772,564</u>	\$ <u>873,779</u>	\$ <u>7,646,343</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2017:

General fund	\$ 4,401,064
Community preservation fund	<u>2,371,500</u>
Total	\$ <u>6,772,564</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion <u>6/30/17</u>	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 7,953	\$ -	\$ (1,180)	\$ 6,773	\$ (1,029)	\$ 5,744
Net pension liability	13,308	785	-	14,093	-	14,093
Net OPEB liability	6,334	204	-	6,538	-	6,538
Other:						
Landfill liability	970	-	(49)	921	(50)	871
Compensated absences	426	74	-	500	(50)	450
Capital leases	51	-	(51)	-	-	-
Subtotal - other	<u>1,447</u>	<u>74</u>	<u>(100)</u>	<u>1,421</u>	<u>(100)</u>	<u>1,321</u>
Totals	<u>\$ 29,042</u>	<u>\$ 1,063</u>	<u>\$ (1,280)</u>	<u>\$ 28,825</u>	<u>\$ (1,129)</u>	<u>\$ 27,696</u>

13. Landfill Postclosure Care Costs

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

The \$921,262 reported as landfill postclosure care liability at June 30, 2017 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 17. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

15. Governmental Funds - Balances

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

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

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

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes Community Preservation funds, various special revenue and expendable trust funds, capital projects funded by borrowing and state grants, and the income portion of permanent funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting and capital project and expendable trust funds funded by general fund appropriations.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, the remaining balance of premiums received on the issuance of excluded debt, and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period, and surplus set aside to be used in the subsequent year's budget.

Unassigned – Represents amounts that are available to spend in future periods and general stabilization fund and deficit funds.

Following is a breakdown of the Town's fund balance as of June 30, 2017:

	General Fund	Community Preservation Fund	Boxford Common Fields Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 5,182	\$ 5,182
Total Nonspendable	-	-	-	5,182	5,182
Restricted					
Community preservation funds	-	1,999,136	-	-	1,999,136
Special revenue funds	-	-	-	1,091,098	1,091,098
Expendable trust funds	-	-	-	75,708	75,708
Capital projects funded by borrowing	-	-	-	160,576	160,576
Expendable permanent funds	-	-	-	9,471	9,471
Total Restricted	-	1,999,136	-	1,336,853	3,335,989
Committed					
Expendable trust funds funded by general fund	-	-	-	91,384	91,384
Capital projects funded by general fund	-	-	-	451,340	451,340
Article carryforwards	496,213	-	-	-	496,213
Total Committed	496,213	-	-	542,724	1,038,937
Assigned					
Encumbrances	225,149	-	-	-	225,149
Reserved for expenditures	857,185	-	-	-	857,185
Reserved for debt service	124,208	-	-	-	124,208
Total Assigned	1,206,542	-	-	-	1,206,542
Unassigned					
General fund	3,997,073	-	-	-	3,997,073
Stabilization fund	838,767	-	-	-	838,767
Special revenue fund deficits	-	-	-	(23,740)	(23,740)
Capital project fund deficits	-	-	(852,988)	(25,000)	(877,988)
Total Unassigned	4,835,840	-	(852,988)	(48,740)	3,934,112
Total Fund Balances	\$ 6,538,595	\$ 1,999,136	\$ (852,988)	\$ 1,836,019	\$ 9,520,762

16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 4,835,840
Unavailable revenue	299,428
Allowance for abatements	3,389
Other	<u>(722,630)</u>
Statutory Balance	<u>\$ 4,416,027</u>

17. **Essex Regional Retirement System**

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Essex Regional Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available at the System's administrative offices at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025. Reports are also available on the System's website at www.essexregional.com.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received

by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

Participant Refunds

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

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the System. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all

gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2017 was \$1,059,806, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2017, the Town reported a liability of \$14,092,733 for its proportionate share of the System's total net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2016, the Town's proportion was 3.658%.

For the year ended June 30, 2017, the Town recognized total pension expense of \$1,611,167. In addition, the Town reported deferred outflows of resources

and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 253,788
Changes of assumptions	597,264	-
Net difference between projected and actual earnings on pension plan investments	617,333	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>57,659</u>
Total	<u>\$ 1,214,597</u>	<u>\$ 311,447</u>

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

Year ended June 30:

2018	\$ 259,932
2019	259,932
2020	273,327
2021	94,752
Thereafter	<u>15,207</u>
Total	<u>\$ 903,150</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to a measurement date of December 31, 2016:

COLA	3% of the first \$13,000
Salary increases	Select and ultimate:
	Year 1 7.50%
	Year 2 6.50%
	Year 3 6.00%
	Year 4 5.50%
	Year 5 5.00%
	Thereafter 3.75%
Investment rate of return	7.75%

Mortality rates were based on the RP-2000 mortality table (sex-distinct, healthy employees for actives and healthy annuitants for retirees) projected with scale BB and Generational Mortality. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality is the healthy retiree table ages set forward 2 years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future 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 adjusted by a 3.00% inflation assumption. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return Geometric Average</u>
Core Bonds	5.00%	4.00%
20+ Year Treasuries	5.00%	3.75%
TIPS	3.00%	3.75%
Large Cap Equities	14.50%	7.50%
Mid/Small Cap Equities	3.50%	7.75%
International Equities	16.00%	7.83%
Emerging International Equities	6.00%	9.61%
High-Yield Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge Funds and Portfolio Completion	13.00%	6.48%
Total	100.00%	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan

member contributions at the current contribution rate and employer contributions at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 17,273,047	\$ 14,092,733	\$ 11,739,854

G. Pension Plan Fiduciary Net Position

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

18. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing, multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State

Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$21,357,123 and \$2,178,567 respectively, based on a proportionate share of 0.095524%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

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

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

A. Plan Description

In addition to providing the pension benefits described in Note 17, the Town provides post-employment medical and prescription drug benefits for eligible retirees. The benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2015, the most recent actuarial valuation date, approximately 201 active and 113 retirees/disabled employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides comprehensive medical insurance to all eligible retirees through a variety of plans from Blue Cross Blue Shield of Massachusetts. All active employees who retire from the Town and meet the eligibility criteria are eligible to receive these benefits.

C. Funding Policy

Retirees contribute between 21% and 50% for Individual and Family medical plans, depending on the chosen coverage level and plan. The Town contributes the remainder of all retiree health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal year 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the

plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

Annual Required Contribution (ARC)	\$ 1,350,795
Interest on net OPEB obligation	395,013
Adjustment to ARC	(451,216)
Amortization of actuarial (gains)/losses	<u>(543,245)</u>
Annual OPEB cost	751,347
Expected employer contributions	(497,053)
Contribution to trust fund over 30 years	(300,000)
Other	<u>250,000</u>
Increase (decrease) in net OPEB obligation	204,294
Net OPEB obligation - beginning of year	<u>6,333,564</u>
Net OPEB obligation - end of year	<u><u>\$ 6,537,858</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 732,516	86.98%	\$ 6,647,189
2016	\$ 687,661	145.61%	\$ 6,333,564
2017	\$ 751,347	39.93%	\$ 6,537,858

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 10,862,066
Actuarial value of plan assets	<u>879,001</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 9,983,065</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>8.1%</u></u>
Covered payroll (active plan members)	<u><u>\$ 11,267,906</u></u>
UAAL as a percentage of covered payroll	<u><u>88.6%</u></u>

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

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the Individual Entry Age Normal actuarial cost method was used. The actuarial value of assets is equal to the market value of the plan's assets. The actuarial assumptions included a 6.0% investment rate of return and an FY 2013 healthcare trend rate of 6.0% graded down to 5.0% through FY 2020. It was assumed that 80% of employees eligible to receive retirement benefits would enroll in the retiree medical plans upon retirement. The UAAL is amortized at 4.5% per year over a period of thirty years at transition, with annual compensation increases of 3.0% and a general inflation assumption of 2.75% per annum. As of July 1, 2015, the most recent actuarial valuation date, the Town's remaining amortization period was 22 years.

G. Masconomet Regional School District – Unfunded OPEB Liability

The Town is a member of the Masconomet Regional School District (District). As of July 1, 2014, the District's most recent actuarial valuation, the District's unfunded actuarially accrued OPEB liability was \$36,600,000, which will be funded by future operating assessments to the District's member Towns. In fiscal year 2017, the Town's portion of the District's annual operating assessment was 37.55%.

20. Other Post-Employment Benefits – OPEB (GASB 74)

In October of 2011 the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of pooled funds with the Pension Reserves Investment Trust (PRIT). Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 10,851,613
Plan fiduciary net position	<u>(1,659,410)</u>
Net OPEB liability	<u>\$ 9,192,203</u>

Plan fiduciary net position as a percentage of the total OPEB liability	15.29%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	7.04 percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on:

- Pre-Retirement Mortality: RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females.
- Post-Retirement Mortality: RP-2000 Healthy Annuitant Mortality 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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2012 through January 1, 2014. As a result of the actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2015 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
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%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current discount rate:

<u>1% Decrease (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
\$ 10,635,239	\$ 9,192,203	\$ 7,830,614

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00 percent decreasing to 4.00 percent) or

1-percentage-point higher (5.00 percent increasing to 6.00 percent) than the current healthcare cost trend rates:

1% Decrease (5.00% decreasing to 4.00%)	Healthcare Cost Trend Rates (5.00%)	1% Increase (5.00% increasing to 6.00%)
\$ 6,839,858	\$ 9,192,203	\$ 12,142,122

21. **Subsequent Events**

Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipatory note	\$ 2,500,000	2.00%	10/06/17	10/05/18

22. **Commitments and Contingencies**

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

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

23. **Implementation of New GASB Standard**

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

TOWN OF BOXFORD, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017
(Unaudited)

Essex Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	12/31/2016	3.658%	\$14,092,733	\$ 4,787,031	294.39%	51.12%
June 30, 2016	12/31/2015	3.663%	\$13,307,669	\$ 5,080,198	261.95%	51.01%
June 30, 2015	12/31/2014	3.652%	\$12,389,026	\$ 4,880,552	253.84%	52.27%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.095524%	\$ -	\$ 21,357,123	\$ 21,357,123	\$ 6,283,239	-	51.12%
June 30, 2016	June 30, 2015	0.094803%	\$ -	\$ 19,424,725	\$ 19,424,725	\$ 6,009,456	-	55.38%
June 30, 2015	June 30, 2014	0.092382%	\$ -	\$ 14,685,326	\$ 14,685,326	\$ 5,664,397	-	61.64%

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

See Independent Auditors' Report.

TOWN OF BOXFORD, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2017
(Unaudited)

Essex Regional Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 1,059,806	\$ 1,059,806	\$ -	\$ 4,787,031	22.14%
June 30, 2016	\$ 1,006,232	\$ 1,006,232	\$ -	\$ 5,080,198	19.81%
June 30, 2015	\$ 936,588	\$ 936,588	\$ -	\$ 4,880,552	19.19%

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

See Independent Auditors' Report.

**TOWN OF BOXFORD, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)**

June 30, 2017

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/11	\$ -	\$ 16,318	\$ 16,318	0%	\$ 34,392	47%
07/01/13	\$ 283	\$ 10,909	\$ 10,626	3%	\$ 9,961	107%
07/01/15	\$ 879	\$ 10,862	\$ 9,983	8%	\$ 11,268	89%

See Independent Auditors' Report.

**TOWN OF BOXFORD, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 314,494
Interest on total OPEB liability	655,663
Benefit payments, including refunds of member contributions	<u>(497,053)</u>
Net change in total OPEB liability	473,104
Total OPEB liability - beginning	<u>10,378,509</u>
Total OPEB liability - ending (a)	<u>\$ 10,851,613</u>
Plan fiduciary net position	
Contributions - employer	\$ 797,053
Net investment income	187,870
Benefit payments, including refunds of member contributions	<u>(497,053)</u>
Net change in plan fiduciary net position	487,870
Plan fiduciary net position - beginning	<u>1,171,540</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,659,410</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 9,192,203</u>

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF BOXFORD, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 10,851,613
Plan fiduciary net position	<u>1,659,410</u>
Net OPEB liability (asset)	<u>\$ 9,192,203</u>
Plan fiduciary net position as a percentage of the total OPEB liability	15.29%
Covered payroll	\$ 11,605,943
Participating employer net OPEB liability (asset) as a percentage of covered payroll	79.20%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 992,163
Contributions in relation to the actuarially determined contribution	<u>797,053</u>
Contribution deficiency (excess)	<u>\$ 195,110</u>
Covered payroll	\$ 11,605,943
Contributions as a percentage of covered payroll	6.87%

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

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.