

TOWN OF FAIRHAVEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

Town of Fairhaven, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Fairhaven, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairhaven, Massachusetts, as of and for the year ended June 30, 2017, (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2016) 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairhaven, Massachusetts, as of June 30, 2017, (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2016) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 58 to 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

March 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, human services, and culture and recreation. The business-type activities include sewer, and water activities.

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

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

spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for sewer and water operations, which are considered to be major funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health and dental programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$111,744,885 (i.e., net position), a change of \$(1,629,927) in comparison to the prior year.
- At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23,226,240, a change of \$1,835,705 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,475,357, a change of \$(1,081,815) 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.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 31,473	\$ 31,698	\$ 6,039	\$ 5,560	\$ 37,512	\$ 37,258
Capital assets	<u>99,959</u>	<u>100,108</u>	<u>32,225</u>	<u>32,740</u>	<u>132,184</u>	<u>132,848</u>
Total assets	131,432	131,806	38,264	38,300	169,696	170,106
Deferred outflows	4,361	2,502	656	420	5,017	2,922
Current liabilities	5,457	7,132	516	558	5,973	7,690
Noncurrent liabilities	<u>49,073</u>	<u>44,754</u>	<u>7,292</u>	<u>7,084</u>	<u>56,365</u>	<u>51,838</u>
Total liabilities	54,530	51,886	7,808	7,642	62,338	59,528
Deferred inflows	532	92	98	33	630	125
Net position:						
Net investment in capital assets	86,126	83,843	27,435	27,409	113,561	111,252
Restricted	8,852	8,507	-	-	8,852	8,507
Unrestricted	<u>(14,247)</u>	<u>(10,020)</u>	<u>3,579</u>	<u>3,636</u>	<u>(10,668)</u>	<u>(6,384)</u>
Total net position	<u>\$ 80,731</u>	<u>\$ 82,330</u>	<u>\$ 31,014</u>	<u>\$ 31,045</u>	<u>\$ 111,745</u>	<u>\$ 113,375</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$111,744,885, a change of \$(1,629,927) from the prior year.

The largest portion of net position \$113,560,446 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$8,852,288 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(10,667,849), resulting from unfunded OPEB and net pension liabilities (see Notes 22 & 24).

	<u>CHANGES IN NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,399	\$ 5,427	\$ 6,693	\$ 6,097	\$ 12,092	\$ 11,524
Operating grants and contributions	15,601	16,643	-	-	15,601	16,643
Capital grants and contributions	450	1,258	-	-	450	1,258
General revenues:						
Property taxes	27,657	26,693	-	-	27,657	26,693
Excises	1,935	1,828	-	-	1,935	1,828
Penalties, interest and other taxes	318	352	-	-	318	352
Grants and contributions not restricted to specific programs	3,105	3,154	-	-	3,105	3,154
Investment income	87	129	-	13	87	142
Miscellaneous	131	421	-	-	131	421
Total revenues	<u>54,683</u>	<u>55,905</u>	<u>6,693</u>	<u>6,110</u>	<u>61,376</u>	<u>62,015</u>
Expenses:						
General government	4,561	2,736	-	-	4,561	2,736
Public safety	9,975	9,135	-	-	9,975	9,135
Education	33,810	31,937	-	-	33,810	31,937
Public works	3,931	4,039	-	-	3,931	4,039
Human services	1,965	1,958	-	-	1,965	1,958
Culture and recreation	1,234	1,209	-	-	1,234	1,209
Interest on long-term debt	352	402	-	-	352	402
Intergovernmental	437	429	-	-	437	429
Sewer	-	-	4,023	4,027	4,023	4,027
Water	-	-	2,718	2,584	2,718	2,584
Total expenses	<u>56,265</u>	<u>51,845</u>	<u>6,741</u>	<u>6,611</u>	<u>63,006</u>	<u>58,456</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Change in net position before transfers	(1,582)	4,060	(48)	(501)	(1,630)	3,559
Transfers in (out)	<u>(17)</u>	<u>(93)</u>	<u>17</u>	<u>18</u>	<u>-</u>	<u>(75)</u>
Change in net position	(1,599)	3,967	(31)	(483)	(1,630)	3,484
Net position - beginning of year	<u>82,330</u>	<u>78,363</u>	<u>31,045</u>	<u>31,528</u>	<u>113,375</u>	<u>109,891</u>
Net position - end of year	<u>\$ 80,731</u>	<u>\$ 82,330</u>	<u>\$ 31,014</u>	<u>\$ 31,045</u>	<u>\$ 111,745</u>	<u>\$ 113,375</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,598,466). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,490,227
Nonmajor governmental funds operations	345,478
Internal service fund operations	(696,251)
Capital asset acquisitions	3,018,583
Depreciation expense in excess of debt service principal paydown	(735,425)
Change in long-term liabilities	(5,196,491)
Other	<u>175,413</u>
Total	<u>\$ (1,598,466)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(31,461). Key elements of this change are as follows:

Sewer fund operations	\$ (335,920)
Water operations	<u>304,459</u>
Total	<u>\$ (31,461)</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 government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23,226,240, a change of \$1,835,705 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance	\$ 1,490,227
Nonmajor governmental funds change in fund balance	<u>345,478</u>
Total	<u>\$ 1,835,705</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 \$8,475,357 while total fund balance was \$14,320,275. 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 ⁽¹⁾	\$ 8,475,357	\$ 9,557,172	\$ (1,081,815)	17.4%
Total fund balance	\$ 14,320,275	\$ 12,830,048	\$ 1,490,227	29.4%

⁽¹⁾ Includes general stabilization fund.

The total fund balance of the general fund changed by \$1,490,227 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (1,478,106)
Revenues in excess of budget	1,183,430
Expenditures less than budget	1,009,302
Change in stabilization	606,946
Other	<u>168,655</u>
Total	<u>\$ 1,490,227</u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 3,007,613	\$ 2,975,329	\$ 32,284
Ambulance stabilization	102,200	48,804	53,396
Capital stabilization	<u>521,500</u>	<u>237</u>	<u>521,263</u>
Total	<u>\$ 3,631,313</u>	<u>\$ 3,024,370</u>	<u>\$ 606,943</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$3,579,284 a change of \$(56,642) in comparison to the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$109,353. Major reasons for these amendments include:

- \$100,000 to fund the capital plan for the Public Facilities Improvement Plan.
- \$1,353 to fund the payment of various prior year bills.
- \$8,000 to fund Council on Aging salaries and wages.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$126,907,300 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included improvements to various Town buildings, road infrastructure improvements, water and wastewater infrastructure improvements, and the purchase of various public safety and highway department equipment and vehicles.

Credit rating. The Town of Fairhaven maintains an “Aa2” credit rating from Moody’s Investors Service for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$13,347,748 all of which was backed by the full faith and credit of the government.

Additional information on capital assets and 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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Finance Director/Treasurer/Collector
Town of Fairhaven
40 Center Street
Fairhaven, Massachusetts 02719

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 21,856,475	\$ 5,074,157	\$ 26,930,632
Investments	6,463,864	264,822	6,728,686
Receivables, net of allowance for uncollectibles:			
Property taxes	624,521	-	624,521
Excises	121,420	-	121,420
User fees	19,403	484,551	503,954
Departmental and other	355,012	-	355,012
Special assessments	1,236	214,504	215,740
Intergovernmental	74,516	-	74,516
Notes receivable	1,038,640	-	1,038,640
Deposits held by others	904,600	-	904,600
Other assets	13,092	552	13,644
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,296,385	-	1,296,385
User fees	-	329,724	329,724
Special assessments	17,543	1,419,070	1,436,613
Intergovernmental	2,213,548	-	2,213,548
Capital assets:			
Land and construction in progress	23,036,762	3,093,796	26,130,558
Other capital assets, net of accumulated depreciation	73,394,603	27,382,139	100,776,742
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>4,361,000</u>	<u>656,000</u>	<u>5,017,000</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	135,792,620	38,919,315	174,711,935
LIABILITIES			
Current:			
Warrants and accounts payable	2,325,235	97,046	2,422,281
Accrued liabilities	1,246,229	56,565	1,302,794
Tax refunds payable	157,996	-	157,996
Other current liabilities	659,604	12,242	671,846
Current portion of long-term liabilities:			
Bonds payable	860,714	342,320	1,203,034
Other	207,394	7,814	215,208
Noncurrent:			
Bonds payable, net of current portion	9,444,714	2,700,000	12,144,714
Net pension liability	18,870,000	2,630,000	21,500,000
Net OPEB obligation	19,363,904	1,891,210	21,255,114
Other, net of current portion	1,393,738	70,325	1,464,063
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	<u>532,000</u>	<u>98,000</u>	<u>630,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	55,061,528	7,905,522	62,967,050
NET POSITION			
Net investment in capital assets	86,125,937	27,434,509	113,560,446
Restricted for:			
Grants and other statutory restrictions	5,945,482	-	5,945,482
Permanent funds:			
Nonexpendable	2,510,300	-	2,510,300
Expendable	396,506	-	396,506
Unrestricted	<u>(14,247,133)</u>	<u>3,579,284</u>	<u>(10,667,849)</u>
TOTAL NET POSITION	\$ <u>80,731,092</u>	\$ <u>31,013,793</u>	\$ <u>111,744,885</u>

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 4,560,835	\$ 438,558	\$ 440,300	\$ 378	\$ (3,681,599)	\$ -	\$ (3,681,599)
Public safety	9,975,186	1,574,361	196,895	-	(8,203,930)	-	(8,203,930)
Education	33,809,749	3,061,015	14,007,497	-	(16,741,237)	-	(16,741,237)
Public works	3,931,019	97,539	-	449,180	(3,384,300)	-	(3,384,300)
Human services	1,965,333	100	949,163	-	(1,016,070)	-	(1,016,070)
Culture and recreation	1,234,472	227,014	7,213	-	(1,000,245)	-	(1,000,245)
Interest on long-term debt	351,759	-	-	-	(351,759)	-	(351,759)
Intergovernmental	436,945	-	-	-	(436,945)	-	(436,945)
Total Governmental Activities	56,265,298	5,398,587	15,601,068	449,558	(34,816,085)	-	(34,816,085)
Business-Type Activities:							
Sewer	4,022,808	3,670,857	-	-	-	(351,951)	(351,951)
Water	2,717,905	3,021,840	-	-	-	303,935	303,935
Total Business-Type Activities	6,740,713	6,692,697	-	-	-	(48,016)	(48,016)
Total	\$ 63,006,011	\$ 12,091,284	\$ 15,601,068	\$ 449,558	(34,816,085)	(48,016)	(34,864,101)
General Revenues and Transfers:							
Property taxes					27,656,654	-	27,656,654
Excises					1,934,989	-	1,934,989
Penalties, interest and other taxes					318,375	-	318,375
Grants and contributions not restricted to specific programs					3,104,703	-	3,104,703
Investment income					87,736	(565)	87,171
Miscellaneous					132,282	-	132,282
Transfers, net					(17,120)	17,120	-
Total general revenues and transfers					33,217,619	16,555	33,234,174
Change in Net Position					(1,598,466)	(31,461)	(1,629,927)
Net Position:							
Beginning of year					82,329,558	31,045,254	113,374,812
End of year					\$ 80,731,092	\$ 31,013,793	\$ 111,744,885

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 13,229,715	\$ 6,412,370	\$ 19,642,085
Investments	3,497,438	2,966,427	6,463,865
Receivables:			
Property taxes	2,122,829	21,546	2,144,375
Excises	227,213	-	227,213
User fees	-	19,403	19,403
Departmental and other	4,175	350,837	355,012
Special assessments	-	18,779	18,779
Intergovernmental	74,516	2,213,548	2,288,064
Notes receivable	-	1,038,640	1,038,640
Other assets	<u>13,003</u>	<u>88</u>	<u>13,091</u>
TOTAL ASSETS	\$ <u>19,168,889</u>	\$ <u>13,041,638</u>	\$ <u>32,210,527</u>
LIABILITIES			
Warrants payable	\$ 1,862,040	\$ 463,195	\$ 2,325,235
Accrued liabilities	292,177	13,930	306,107
Other liabilities	<u>659,604</u>	<u>-</u>	<u>659,604</u>
TOTAL LIABILITIES	2,813,821	477,125	3,290,946
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	2,034,793	3,658,548	5,693,341
FUND BALANCES			
Nonspendable	-	2,510,300	2,510,300
Restricted	-	6,636,351	6,636,351
Committed	1,533,014	-	1,533,014
Assigned	4,311,904	-	4,311,904
Unassigned	<u>8,475,357</u>	<u>(240,686)</u>	<u>8,234,671</u>
TOTAL FUND BALANCES	<u>14,320,275</u>	<u>8,905,965</u>	<u>23,226,240</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>19,168,889</u>	\$ <u>13,041,638</u>	\$ <u>32,210,527</u>

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

TOWN OF FAIRHAVEN, 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	\$ 23,226,240
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	96,431,365
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	5,693,342
• Internal service funds are used by management to account for health and dental insurance activities. The assets and liabilities of the internal service funds are included with governmental activities in the Statement of Net Assets.	2,234,500
• Long-term liabilities, including bonds payable, net pension liability, and net OPEB Obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds:	(50,140,464)
• Other	<u>3,286,109</u>
Net position of governmental activities	<u>\$ 80,731,092</u>

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 26,962,799	\$ 368,553	\$ 27,331,352
Excises	1,960,174	-	1,960,174
Penalties, interest and other taxes	315,024	2,364	317,388
Charges for services	3,070,614	2,110,892	5,181,506
Licenses and permits	539,307	-	539,307
Intergovernmental	16,258,206	3,233,411	19,491,617
Fines and forfeitures	1,335	-	1,335
Investment income	95,525	314,840	410,365
Contributions	-	244,654	244,654
Miscellaneous	193,434	267,396	460,830
Total Revenues	<u>49,396,418</u>	<u>6,542,110</u>	<u>55,938,528</u>
Expenditures:			
Current:			
General government	2,036,979	609,126	2,646,105
Public safety	5,982,048	275,311	6,257,359
Education	26,144,288	2,594,822	28,739,110
Public works	2,561,385	1,069,420	3,630,805
Human services	1,545,062	261,392	1,806,454
Culture and recreation	767,279	290,411	1,057,690
Employee benefits	6,187,433	256,286	6,443,719
Debt service	2,849,822	-	2,849,822
Intergovernmental	436,945	-	436,945
Capital outlay	135,243	82,451	217,694
Total Expenditures	<u>48,646,484</u>	<u>5,439,219</u>	<u>54,085,703</u>
Excess (deficiency) of revenues over expenditures	749,934	1,102,891	1,852,825
Other Financing Sources (Uses):			
Transfers in	912,775	155,362	1,068,137
Transfers out	(172,482)	(912,775)	(1,085,257)
Total Other Financing Sources (Uses)	<u>740,293</u>	<u>(757,413)</u>	<u>(17,120)</u>
Change in fund balance	1,490,227	345,478	1,835,705
Fund Balance, at Beginning of Year	<u>12,830,048</u>	<u>8,560,487</u>	<u>21,390,535</u>
Fund Balance, at End of Year	<u>\$ 14,320,275</u>	<u>\$ 8,905,965</u>	<u>\$ 23,226,240</u>

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

TOWN OF FAIRHAVEN, 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	\$ 1,835,705																		
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Capital outlay</td> <td style="text-align: right;">3,018,583</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,221,139)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">2,485,714</td> </tr> <tr> <td>Change in net pension liability</td> <td style="text-align: right;">(2,681,000)</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(2,476,270)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">(39,221)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(289,367)</td> </tr> </table> • Internal service funds are used by management to account for health and dental insurance activities. The net activity of internal service funds is reported with governmental activities in the Statement of Net Position. <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(696,251)</td> </tr> </table> • Other differences <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u>464,780</u></td> </tr> </table> 	Capital outlay	3,018,583	Depreciation	(3,221,139)	Repayments of debt	2,485,714	Change in net pension liability	(2,681,000)	Change in net OPEB obligation	(2,476,270)	Other	(39,221)		(289,367)		(696,251)		<u>464,780</u>	
Capital outlay	3,018,583																		
Depreciation	(3,221,139)																		
Repayments of debt	2,485,714																		
Change in net pension liability	(2,681,000)																		
Change in net OPEB obligation	(2,476,270)																		
Other	(39,221)																		
	(289,367)																		
	(696,251)																		
	<u>464,780</u>																		
Change in net position of governmental activities	\$ <u><u>(1,598,466)</u></u>																		

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

TOWN OF FAIRHAVEN, 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>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 26,915,620	\$ 26,915,620	\$ 26,915,620	\$ -
Excises	1,395,000	1,395,000	1,960,174	565,174
Penalties, interest and other taxes	470,000	470,000	470,208	208
Charges for services	3,474,000	3,474,000	3,697,943	223,943
Licenses and permits	400,000	400,000	539,307	139,307
Intergovernmental	12,062,117	12,062,117	12,085,534	23,417
Fines and forfeitures	6,000	6,000	1,335	(4,665)
Investment income	20,000	20,000	40,269	20,269
Miscellaneous	-	-	209,663	209,663
Transfers in	2,078,198	2,086,198	2,092,312	6,114
Use of free cash	1,296,753	1,398,106	1,398,106	-
Other sources	80,000	80,000	80,000	-
Total Revenues and Other Sources	48,197,688	48,307,041	49,490,471	1,183,430
Expenditures and Other Uses:				
General government	3,182,190	2,956,498	2,914,032	42,466
Public safety	5,934,166	6,168,114	6,050,031	118,083
Education	21,710,367	21,716,790	21,693,847	22,943
Public works	2,821,906	2,861,236	2,795,567	65,669
Human services	1,807,391	1,802,777	1,610,835	191,942
Culture and recreation	771,630	765,771	769,413	(3,642)
Employee benefits	7,754,371	7,772,016	7,405,573	366,443
Debt service	2,930,487	2,901,644	2,866,942	34,702
Intergovernmental	452,180	452,180	436,945	15,235
Capital outlay	115,800	192,815	49,192	143,623
Transfers out	717,200	717,200	705,362	11,838
Total Expenditures and Other Uses	48,197,688	48,307,041	47,297,739	1,009,302
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,192,732	\$ 2,192,732

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
ASSETS				
Current:				
Cash and short-term investments	\$ 3,100,585	\$ 1,973,572	\$ 5,074,157	\$ 2,214,390
Investments	264,822	-	264,822	-
Deposits held by others	-	-	-	904,600
Receivables, net of allowance for uncollectibles:				
User fees	266,391	218,160	484,551	-
Special assessments	212,242	2,262	214,504	-
Other	446	106	552	-
Total current assets	3,844,486	2,194,100	6,038,586	3,118,990
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
User fees	201,941	127,783	329,724	-
Special assessments	1,419,070	-	1,419,070	-
Capital assets:				
Land and construction in progress	2,380,965	712,831	3,093,796	-
Other capital assets, net of accumulated depreciation	23,817,263	3,564,876	27,382,139	-
Total noncurrent assets	27,819,239	4,405,490	32,224,729	-
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	430,000	226,000	656,000	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	32,093,725	6,825,590	38,919,315	3,118,990
LIABILITIES				
Current:				
Accounts payable	88,376	8,670	97,046	566,458
Accrued liabilities	35,428	21,137	56,565	318,032
Other current liabilities	12,242	-	12,242	-
Current portion of long-term liabilities:				
Bonds payable	296,111	46,209	342,320	-
Other	4,820	2,994	7,814	-
Total current liabilities	436,977	79,010	515,987	884,490
Noncurrent:				
Bonds payable, net of current portion	1,977,588	722,412	2,700,000	-
Net pension liability	1,754,000	876,000	2,630,000	-
Net OPEB obligation				
Other post-employment benefits	1,295,391	595,819	1,891,210	-
Other, net of current portion	43,382	26,943	70,325	-
Total noncurrent liabilities	5,070,361	2,221,174	7,291,535	-
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	54,000	44,000	98,000	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,561,338	2,344,184	7,905,522	884,490
NET POSITION				
Net investment in capital assets	23,924,529	3,509,980	27,434,509	-
Unrestricted	2,607,858	971,426	3,579,284	2,234,500
TOTAL NET POSITION	\$ 26,532,387	\$ 4,481,406	\$ 31,013,793	\$ 2,234,500

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 3,296,919	\$ 3,017,763	\$ 6,314,682	\$ -
Employee and employer contributions	-	-	-	5,946,398
Special assessments	373,938	836	374,774	-
Other	-	3,241	3,241	-
Total Operating Revenues	3,670,857	3,021,840	6,692,697	5,946,398
Operating Expenses:				
Salaries and benefits	1,689,073	1,057,742	2,746,815	6,644,110
Other operating expenses	1,038,745	308,591	1,347,336	-
Depreciation	1,209,718	151,243	1,360,961	-
Intergovernmental assessments	-	1,183,203	1,183,203	-
Total Operating Expenses	3,937,536	2,700,779	6,638,315	6,644,110
Operating Income (Loss)	(266,679)	321,061	54,382	(697,712)
Nonoperating Revenues (Expenses):				
Investment income	(1,089)	524	(565)	1,461
Interest expense	(85,272)	(17,126)	(102,398)	-
Total Nonoperating Revenues (Expenses), Net	(86,361)	(16,602)	(102,963)	1,461
Income (Loss) Before Transfers	(353,040)	304,459	(48,581)	(696,251)
Transfers:				
Transfers in	17,120	-	17,120	-
Total transfers in (out)	17,120	-	17,120	-
Change in Net Position	(335,920)	304,459	(31,461)	(696,251)
Net Position at Beginning of Year	26,868,307	4,176,947	31,045,254	2,930,751
Net Position at End of Year	\$ 26,532,387	\$ 4,481,406	\$ 31,013,793	\$ 2,234,500

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 3,946,630	\$ 3,024,198	\$ 6,970,828	\$ 5,946,399
Payments to vendors and employees	<u>(2,497,623)</u>	<u>(2,374,703)</u>	<u>(4,872,326)</u>	<u>(6,494,219)</u>
Net Cash Provided By (Used For) Operating Activities	1,449,007	649,495	2,098,502	(547,820)
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	<u>17,120</u>	<u>-</u>	<u>17,120</u>	<u>-</u>
Net Cash Provided By Noncapital Financing Activities	17,120	-	17,120	-
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(841,613)	(189,618)	(1,031,231)	-
Proceeds from issuance of bonds and notes	-	50,392	50,392	-
Principal payments on bonds and notes	(309,364)	(94,275)	(403,639)	-
Interest expense	<u>(86,186)</u>	<u>(17,929)</u>	<u>(104,115)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,237,163)	(251,430)	(1,488,593)	-
<u>Cash Flows From Investing Activities:</u>				
Investments	(1,025)	-	(1,025)	-
Investment income	<u>(1,089)</u>	<u>524</u>	<u>(565)</u>	<u>1,461</u>
Net Cash Provided By (Used For) Investing Activities	<u>(2,114)</u>	<u>524</u>	<u>(1,590)</u>	<u>1,461</u>
Net Change in Cash and Short-Term Investments	226,850	398,589	625,439	(546,359)
Cash and Short-Term Investments, Beginning of Year	<u>2,873,735</u>	<u>1,574,983</u>	<u>4,448,718</u>	<u>2,760,749</u>
Cash and Short-Term Investments, End of Year	<u>\$ 3,100,585</u>	<u>\$ 1,973,572</u>	<u>\$ 5,074,157</u>	<u>\$ 2,214,390</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (266,679)	\$ 321,061	\$ 54,382	\$ (697,712)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,209,718	151,243	1,360,961	-
Changes in assets, liabilities, and deferred outflows/inflows:				
User fees	7,244	4,313	11,557	-
Special assessments	270,375	(1,206)	269,169	-
Other receivables	2,834	-	2,834	(8,298)
Deferred outflows - related to pensions	(155,000)	(81,000)	(236,000)	-
Deferred outflows - other				
Accounts payable	(11,792)	5,835	(5,957)	134,359
Accrued liabilities	(11,446)	(9,145)	(20,591)	23,831
Other liabilities	119,753	121,394	241,147	-
Net pension liability	230,000	126,000	356,000	-
Deferred inflows - related to pensions	<u>54,000</u>	<u>11,000</u>	<u>65,000</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,449,007</u>	<u>\$ 649,495</u>	<u>\$ 2,098,502</u>	<u>\$ (547,820)</u>

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (As of <u>December 31, 2016</u>)	Other Post- Employment Benefits Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS				
Cash and short-term investments	\$ 682,903	\$ 931	\$ 305,368	\$ 1,182,609
Investments	53,542,180	346,141	336,608	-
Accounts receivable	<u>112,517</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	54,337,600	347,072	641,976	1,182,609
LIABILITIES AND NET POSITION				
Warrants payable	-	-	10,032	350
Accrued liabilities	-	-	-	6,233
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,176,026</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>10,032</u>	<u>1,182,609</u>
NET POSITION				
Total net position held in trust	<u>\$ 54,337,600</u>	<u>\$ 347,072</u>	<u>\$ 631,944</u>	<u>\$ -</u>

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (For the Year Ended December 31, 2016)	Other Post- Employment Benefits Trust Fund	Private Purpose Trust Fund
Additions:			
Contributions:			
Employers	\$ 2,952,300	\$ 1,302,254	\$ -
Plan members	1,041,499	-	-
Other systems and Commonwealth of Massachusetts	118,509	-	7,207
Other	<u>28,827</u>	<u>-</u>	<u>-</u>
Total contributions	4,141,135	1,302,254	7,207
Investment Income (Loss):			
Investment income	-	11,437	6,685
Increase (Decrease) in fair value of investments	3,982,054	13,341	122,539
Less: management fees	<u>(276,400)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>3,705,654</u>	<u>24,778</u>	<u>129,224</u>
Total additions	7,846,789	1,327,032	136,431
Deductions:			
Benefit payments to plan members, beneficiaries, and other systems	4,107,342	1,202,254	-
Member refunds and transfers to other systems	352,288	-	-
Administrative expenses	93,164	-	-
Other	<u>-</u>	<u>-</u>	<u>21,781</u>
Total deductions	<u>4,552,794</u>	<u>1,202,254</u>	<u>21,781</u>
Net increase	3,293,995	124,778	114,650
Net position:			
Beginning of year	<u>51,043,605</u>	<u>222,294</u>	<u>517,294</u>
End of year	<u>\$ 54,337,600</u>	<u>\$ 347,072</u>	<u>\$ 631,944</u>

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

The Fairhaven Contributory Retirement System (the System) was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information for the System can be obtained by contacting the System's retirement administrator, located at Town of Fairhaven, 40 Center Street, Fairhaven, MA 02719.

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 inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental fund:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *Sewer Fund* is used to account for the Town's sewer enterprise fund operations.
- The *Water Fund* is used to account for the Town's water enterprise fund operations.

The self-insured medical and dental claims trust is reported as an *Internal Service Fund* in the accompanying financial statements.

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 *Pension Trust Fund* accounts for the activities of the Fairhaven Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Other Post-Employment Benefits Trust Fund* is used to accumulate resources for future post-employment medical, dental, and life insurance benefits for retired employees and spouses or dependents of deceased Town employees.

- The *Agency Fund* accounts 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, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

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

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 Town's trust funds consist of marketable securities, bonds, mutual funds, and certificates of deposit. Investments for the Contributory Retirement System (Pension Trust) consist of pooled investments in the State Pension Reserves Investment Trust (PRIT). Investments are carried at fair value except certificates of deposit which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$20,456.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of five 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Improvements	20 - 40
Infrastructure	30 - 60
Machinery and equipment	5 - 10

I. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary funds 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.

J. Long-Term Obligations

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

K. 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 balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

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

disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 49,396,418	\$ 48,646,484
Other financing sources/uses (GAAP Basis)	<u>912,775</u>	<u>172,482</u>
Subtotal (GAAP Basis)	50,309,193	48,818,966
Adjust tax revenue to accrual basis	(47,176)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,540,224)
Add end-of-year appropriation carryforwards from expenditures	-	1,661,703
Record use of free cash	1,398,106	-
Record use of overlay surplus	80,000	-
Reverse effect of non-budgeted State contributions for teachers retirement	(2,192,706)	(2,192,706)
Reverse effect of combining stabilization funds with general fund per GASB 54	<u>(56,946)</u>	<u>550,000</u>
Budgetary Basis	<u>\$ 49,490,471</u>	<u>\$ 47,297,739</u>

D. Deficit Fund Equity

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

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, 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." Neither the Town nor the Contributory Retirement System (System) has deposit policies for custodial credit risk.

As of June 30, 2017, \$4,783,241 of the Town's bank balance of \$28,087,011 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	Minimum Legal <u>Rating</u>	<u>Rating as of Year-end</u>				
			<u>AAA</u>	<u>A3</u>	<u>A2</u>	<u>BAA1</u>	<u>Not Rated</u>
Certificates of deposits	\$ 1,103	N/A	\$ -	\$ -	\$ -	\$ -	\$ 1,103
Federal agency securities	1,703	N/A	1,703	-	-	-	-
Corporate bonds	747	N/A	-	174	265	308	-
Corporate equities	3,192	N/A	-	-	-	-	3,192
Mutual funds	667	N/A	-	-	-	-	667
External investment pool	<u>53,542</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,542</u>
Total investments	<u>\$ 60,954</u>		<u>\$ 1,703</u>	<u>\$ 174</u>	<u>\$ 265</u>	<u>\$ 308</u>	<u>\$ 58,504</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

**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 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 investment or collateral securities that are in the possession of another party. Neither the Town nor the System has policies for custodial credit risk.

All of the Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. As of June 30, 2017, the Town did not hold any individual investments (other than U.S. treasuries, government agency securities, and mutual funds) exceeding 5% of total investments.

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT fund. Because all of the System's investments are held in the PRIT Fund's investment pool, concentration of credit risk cannot be readily determined.

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. Neither the Town nor the System has a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from changing interest rates.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>N/A</u>
Certificates of deposits	\$ 1,103	\$ 115	\$ 988	\$ -
Federal agency securities	1,703	-	1,703	-
Corporate bonds	747	340	407	-
Corporate equities	3,192	-	-	3,192
Mutual funds	667	-	-	667
External investment pool	<u>53,542</u>	<u>-</u>	<u>-</u>	<u>53,542</u>
Total	<u>\$ 60,954</u>	<u>\$ 455</u>	<u>\$ 3,098</u>	<u>\$ 57,401</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Neither the Town nor the System has policies for foreign currency risk.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement

No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2017 except for the System's investment in an external investment pool which has a measurement date of December 31, 2016:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Investments by fair value level:				
Debt securities:				
Federal agency securities	\$ 1,703	\$ -	\$ 1,703	\$ -
Corporate bonds	747	-	747	-
Equity securities:				
Corporate equities	3,192	3,192	-	-
Mutual funds	667	667	-	-
Investments measured at the net asset value (NAV):				
External investment pool (System)	<u>53,542</u>	-	-	-
Total	<u>\$ 59,851</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 (System)	\$ 53,542	\$ -	Monthly	30 days

5. Taxes and Excises Receivable

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

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

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

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.

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

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 633,600	\$ (66,106)	\$ 567,494
Personal property taxes	55,809	(14,308)	41,501
Tax liens	1,432,302	(143,055)	1,289,247
Other	22,664	-	22,664
Total property taxes	2,144,375	(223,469)	1,920,906
Motor vehicle excise	215,288	(98,788)	116,500
Boat excise	11,925	(7,005)	4,920
Total excises	227,213	(105,793)	121,420
Grand total	\$ 2,371,588	\$ (329,262)	\$ 2,042,326

6. User Fee Receivables

Receivables for enterprise fund user charges and betterments at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Sewer	\$ 502,303	\$ (33,971)	\$ 468,332
Water	371,345	(25,402)	345,943
Total	\$ 873,648	\$ (59,373)	\$ 814,275

7. Departmental and Other Receivables

This balance consists primarily of ambulance charges and stop-loss adjustments due from the Town's health insurance carrier for medical claims in excess of stop-loss limits in the Town's self-insured internal service fund.

8. Special Assessments Receivable

This balance represents Title V, sewer, and water special assessment receivables.

9. Intergovernmental Receivables

This represents reimbursements requested from Federal and State agencies, as well as funding to be provided by the Massachusetts School Building Authority (MSBA) for contracted reimbursement of approved school capital project expenditures.

10. Interfund 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 major interfund transfers.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental:		
General fund	\$ 912,775	\$ 172,482
Nonmajor Funds:		
Special revenue funds:		
Recreation	67,200	-
Ambulance	-	767,989
Waterways	21,393	54,125
Other	<u>66,769</u>	<u>90,661</u>
Subtotal - Governmental	1,068,137	1,085,257
Business-Type:		
Sewer fund	<u>17,120</u>	<u>-</u>
Subtotal - Business-Type	<u>17,120</u>	<u>-</u>
Total	<u>\$ 1,085,257</u>	<u>\$ 1,085,257</u>

11. Deposits Held by Others

This balance represents the total working deposit held by the Town's self-insured health administrator for ongoing medical and dental claims.

12. Notes Receivable

This balance represents the outstanding balance of home rehabilitation loans funded by Community Development Block Grants.

13. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 67,047	\$ -	\$ -	\$ 67,047
Improvements	11,644	2,235	-	13,879
Machinery and equipment	4,591	422	-	5,013
Infrastructure	<u>30,434</u>	<u>1,624</u>	<u>-</u>	<u>32,058</u>
Total capital assets, being depreciated	113,716	4,281	-	117,997
Less accumulated depreciation for:				
Buildings	(20,370)	(1,628)	-	(21,998)
Improvements	(4,916)	(433)	-	(5,349)
Machinery and equipment	(3,318)	(295)	-	(3,613)
Infrastructure	<u>(12,778)</u>	<u>(865)</u>	<u>-</u>	<u>(13,643)</u>
Total accumulated depreciation	<u>(41,382)</u>	<u>(3,221)</u>	<u>-</u>	<u>(44,603)</u>
Total capital assets, being depreciated, net	72,334	1,060	-	73,394
Capital assets, not being depreciated:				
Land	22,099	85	-	22,184
Construction in progress	<u>2,201</u>	<u>853</u>	<u>(2,201)</u>	<u>853</u>
Total capital assets, not being depreciated	<u>24,300</u>	<u>938</u>	<u>(2,201)</u>	<u>23,037</u>
Governmental activities capital assets, net	<u>\$ 96,634</u>	<u>\$ 1,998</u>	<u>\$ (2,201)</u>	<u>\$ 96,431</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and system	\$ 36,452	\$ 226	\$ -	\$ 36,678
Improvements other than buildings	21,313	503	-	21,816
Machinery and equipment	<u>3,535</u>	<u>151</u>	<u>-</u>	<u>3,686</u>
Total capital assets, being depreciated	61,300	880	-	62,180
Less accumulated depreciation for:				
Buildings and system	(21,606)	(569)	-	(22,175)
Improvements other than buildings	(8,901)	(722)	-	(9,623)
Machinery and equipment	<u>(2,930)</u>	<u>(70)</u>	<u>-</u>	<u>(3,000)</u>
Total accumulated depreciation	<u>(33,437)</u>	<u>(1,361)</u>	<u>-</u>	<u>(34,798)</u>
Total capital assets, being depreciated, net	27,863	(481)	-	27,382
Capital assets, not being depreciated:				
Land	989	-	-	989
Construction in progress	<u>1,954</u>	<u>930</u>	<u>(779)</u>	<u>2,105</u>
Total capital assets, not being depreciated	<u>2,943</u>	<u>930</u>	<u>(779)</u>	<u>3,094</u>
Business-type activities capital assets, net	<u>\$ 30,806</u>	<u>\$ 449</u>	<u>\$ (779)</u>	<u>\$ 30,476</u>

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

Governmental Activities:	
General government	\$ 139
Public safety	190
Education	1,751
Public works	1,028
Culture and recreation	<u>113</u>
Total depreciation expense - governmental activities	<u>\$ 3,221</u>
Business-Type Activities:	
Sewer fund	\$ 1,210
Water fund	<u>151</u>
Total depreciation expense - business-type activities	<u>\$ 1,361</u>

14. 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 22.

15. Warrants and Accounts Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017. Accounts payable represent additional 2017 expenses paid after the close of the fiscal year.

16. Accrued Liabilities

Accrued liabilities consist primarily of year-end payroll and withholdings, self-insured health and dental claims incurred but not yet recorded, and accrued interest on long-term debt.

17. 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.

18. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Governmental Activities:</u>			
Elementary school MSBA	11/01/18	2.0%	\$ 297,428
Elementary school	11/01/33	3.0 - 4.0%	7,695,000
High school - refunding	12/15/24	2.0 - 5.0%	373,000
Elementary and high school - refunding	03/15/27	2.0 - 3.0%	1,940,000
Total Governmental Activities:			<u>\$ 10,305,428</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Business-Type Activities:</u>			
Sewer - Title V MWPAT	08/01/18	0.0%	\$ 21,736
Sewer - Title V MWPAT	02/01/21	0.0%	26,980
Sewer - Boulder Park MWPAT	08/01/18	4.0 - 5.2%	41,200
Sewer - USDA Rural Development	02/02/26	4.5%	130,467
Sewer Digester	01/15/33	2.0%	596,316
Sewer - Nancy Street refunding	12/15/19	2.0 - 5.0%	15,000
Sewer - UV Disinfection refunding	12/15/24	2.0 - 5.0%	558,000
Sewer - Sconticut Neck refunding	12/15/24	2.0 - 5.0%	884,000
Water - Boston Hill Water Tank	11/01/22	3.0 - 4.0%	90,000
Water - MCWT Boston Hill Water Tank	07/15/35	2.0%	678,621
Total Business-Type Activities:			<u>\$ 3,042,320</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	\$ 860,714	\$ 306,864	\$ 1,167,578
2019	855,714	282,786	1,138,500
2020	707,000	261,988	968,988
2021	702,000	244,162	946,162
2022	697,000	225,770	922,770
2023 - 2027	3,333,000	841,375	4,174,375
2028 - 2033	2,250,000	380,250	2,630,250
Thereafter	900,000	35,438	935,438
Total	<u>\$ 10,305,428</u>	<u>\$ 2,578,633</u>	<u>\$ 12,884,061</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 342,320	\$ 87,217	\$ 429,537
2019	334,900	76,637	411,537
2020	300,168	64,212	364,380
2021	292,401	52,220	344,621
2022	284,602	42,372	326,974
2023 - 2027	905,817	112,643	1,018,460
2028 - 2033	406,442	42,301	448,743
Thereafter	175,670	6,194	181,864
Total	<u>\$ 3,042,320</u>	<u>\$ 483,796</u>	<u>\$ 3,526,116</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			Equals		
	Balance	Additions	Reductions	Balance	Less	Long-Term
	<u>7/1/16</u>			<u>6/30/17</u>	Current	Portion
					Portion	<u>6/30/17</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 12,791	\$ -	\$ (2,485)	\$ 10,306	\$ (861)	\$ 9,445
Net pension liability	16,189	2,681	-	18,870	-	18,870
Net OPEB Obligation	16,888	2,476	-	19,364	-	19,364
Other:						
Landfill liability	350	-	(25)	325	(25)	300
Compensated absences	1,004	134	(6)	1,132	(113)	1,019
Special termination benefits	208	-	(64)	144	(69)	75
Subtotal - other	<u>1,562</u>	<u>134</u>	<u>(95)</u>	<u>1,601</u>	<u>(207)</u>	<u>1,394</u>
Totals	<u>\$ 47,430</u>	<u>\$ 5,291</u>	<u>\$ (2,580)</u>	<u>\$ 50,141</u>	<u>\$ (1,068)</u>	<u>\$ 49,073</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,446	\$ -	\$ (404)	\$ 3,042	\$ (342)	\$ 2,700
Net pension liability	2,274	356	-	2,630	-	2,630
Net OPEB Obligation	1,679	212	-	1,891	-	1,891
Other:						
Compensated absences	<u>47</u>	<u>31</u>	<u>-</u>	<u>78</u>	<u>(8)</u>	<u>70</u>
Totals	<u>\$ 7,446</u>	<u>\$ 599</u>	<u>\$ (404)</u>	<u>\$ 7,641</u>	<u>\$ (350)</u>	<u>\$ 7,291</u>

19. Landfill Post-Closure 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 \$325,000 reported as landfill postclosure care liability at June 30, 2017 represents the estimated future monitoring costs of the Town's former landfill, which was closed and capped in 1999. These costs will be captured annually as part

of the Town's budget. Actual cost may be higher than estimated due to inflation, changes in technology, or changes in regulations.

20. 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 22. *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.

21. 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 at June 30, 2017:

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general

fund encumbrances for non-lapsing special article appropriations approved at Town Meeting.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose as established by management. 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, fund balance voted to be used for the subsequent year's budget, and funds reserved by Town management for future debt service payments.

Unassigned - Represents amounts that are available to be spent in future periods.

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 2,510,300	\$ 2,510,300
Total Nonspendable	-	2,510,300	2,510,300
Restricted			
Bonded projects	-	53,677	53,677
Special revenue funds	-	6,186,168	6,186,168
Expendable permanent funds	-	396,506	396,506
Total Restricted	-	6,636,351	6,636,351
Committed			
Carryover articles	909,314	-	909,314
Ambulance stabilization	102,200	-	102,200
Capital stabilization	521,500	-	521,500
Total Committed	1,533,014	-	1,533,014
Assigned			
Encumbrances	752,389	-	752,389
Reserve for expenditure	3,440,453	-	3,440,453
Future debt service	119,062	-	119,062
Total Assigned	4,311,904	-	4,311,904
Unassigned			
Stabilization funds	3,007,613	-	3,007,613
Undesignated	5,467,744	-	5,467,744
Special revenue fund deficits	-	(240,686)	(240,686)
Total Unassigned	8,475,357	(240,686)	8,234,671
Total Fund Balance	\$ 14,320,275	\$ 8,905,965	\$ 23,226,240

22. Retirement System

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and 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 Fairhaven Contributory 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 40 Centre Street, Fairhaven, Massachusetts 02719.

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 1, 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 on or 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 \$2,859,586, which was \$60,000 more than its required contribution. Subsequent to the actuarial valuation, the System increased the base of cost-of-living adjustments from \$13,000 to \$14,000. This adjustment was financed by the additional \$60,000 payment from the Town.

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 \$21,500,000 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 96.71%.

For the year ended June 30, 2017, the Town recognized total pension expense of \$4,329,000. 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	\$ -	\$ 532,000
Changes of assumptions	2,715,000	-
Net difference between projected and actual investment earnings on pension plan investments	2,222,000	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>80,000</u>	<u>98,000</u>
Total	<u>\$ 5,017,000</u>	<u>\$ 630,000</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	\$ 1,232,000
2019	1,233,000
2020	1,239,000
2021	534,000
2022	<u>149,000</u>
Total	<u>\$ 4,387,000</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:

Valuation Date	January 1, 2016
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$13,000

Mortality rates were based on:

- Pre-Retirement Mortality: RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 (gender distinct).
- Post-Retirement Mortality: RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 (gender distinct).
- Disabled Mortality: RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 (gender distinct).

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</u>
Large cap equities	14.5%	7.50%
Small/mid cap equities	3.5%	7.75%
Int'l equities	16.0%	7.83%
Emerging int'l equities	6.0%	9.61%
Core bonds	5.0%	4.00%
20+ Yr. Treasury STRIPS	5.0%	3.75%
TIPS	3.0%	3.75%
High-yield bonds	1.5%	5.75%
Bank loans	1.5%	6.00%
EMD (external)	1.0%	5.75%
EMD (local currency)	2.0%	6.50%
Private debt	4.0%	9.06%
Private equity	10.0%	9.50%
Real estate	10.0%	6.50%
Timberland	4.0%	6.00%
Hedge funds and portfolio completion	<u>13.0%</u>	6.48%
Total	<u>100.00%</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 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 and Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
June 30, 2017	\$ 30,040,060	\$ 21,500,000	\$ 14,279,232

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.

23. 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 RP-2014 Healthy Annuitant table projected generationally with scale BB and a base year of 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	<u>4.0%</u>	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 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</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 Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$39,384,609 and \$4,017,488 respectively, based on a proportionate share of 0.176155%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

24. Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments 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 their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing pension benefits, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of July 1, 2016, the most recent actuarial valuation date, approximately 316 retirees and 387 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides various medical, dental, and life insurance benefits to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 40% of premiums for medical, 50% of premiums for dental and 45% of premiums for life insurance. The Town contributes the remainder of the costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 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, 2016.

Annual Required Contribution (ARC)	\$ 3,631,235
Interest on net OPEB obligation	742,662
Adjustment to ARC	(1,032,409)
Amortization of actuarial gains (losses)	<u>649,363</u>
Annual OPEB cost	3,990,851
Contributions made	<u>(1,302,254)</u>
Increase in net OPEB obligation	2,688,597
Net OPEB obligation - beginning of year	<u>18,566,517</u>
Net OPEB obligation - end of year	<u><u>\$ 21,255,114</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 3,990,851	32.6%	\$ 21,255,114
2016	\$ 3,559,114	39.3%	\$ 18,566,517

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 44,227,997
Actuarial value of plan assets	<u>222,294</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 44,005,703</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.50%</u>
Covered payroll (active plan members)	<u>\$ 26,997,261</u>
UAAL as a percentage of covered payroll	<u>163.00%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of 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 plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the Individual Entry Age Normal actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return, compensation increases of 3% per year, a general inflation assumption of 2.75% per annum, 5% long-term rate for all healthcare benefits. The amortization of UAAL is a level dollar amortization over 30 years at the last valuation, with a remaining amortization period of 22 years at July 1, 2016.

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

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

Investments

The OPEB Trust fund approved a formal investment policy on September 1, 2016. At June 30, 2017, investments consisted of Equity and Mutual Fund investments with Bartholomew. 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	\$ 48,194,393
Plan fiduciary net position	<u>(347,072)</u>
Net OPEB liability	<u>\$ 47,847,321</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.72%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.00%
Investment rate of return	6.86%, 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, 2016 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, 2016 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	22.50%	4.00%
Domestic equity - small/mid cap	11.25%	6.00%
International equity - developed market	11.50%	4.50%
International equity - emerging market	5.75%	7.00%
Domestic fixed income	24.25%	2.00%
International fixed income	6.00%	3.00%
Alternatives	18.50%	6.50%
Real estate	0.00%	6.25%
Cash	0.25%	0.00%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 4.00%. 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 (3.00%) or 1-percentage-point higher (5.00%) than the current discount rate:

<u>1% Decrease (3.00%)</u>	<u>Discount Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
\$ 56,535,184	\$ 47,847,321	\$ 41,017,252

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 (4.00%) or 1-percentage-point higher (5.00%) than the current healthcare cost trend rates:

1% Decrease (4.00%)	Healthcare Cost Trend Rates (5.00%)	1% Increase (6.00%)
\$ 35,398,722	\$ 47,847,321	\$ 64,092,503

26. Self-Insurance

The Town self-insures against claims for employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$90,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2017 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 294,201
Claims incurred/recognized in fiscal year 2017	6,644,110
Claims paid in fiscal year 2017	<u>(6,620,279)</u>
Claims liability, end of year	<u>\$ 318,032</u>

27. 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.

Commitments - The Town built a sewer treatment plant several years ago that met the environmental pollutant discharge regulations at the time, however, pollutant discharge regulations have since changed. When the Town applied for a license renewal, the Environmental Protection Agency (EPA) and the Department of Environmental Protection (DEP) agreed to renew the license if improvements were made to reduce the amount of nitrogen discharged. The Town, EPA, and DEP have agreed upon a plan to reduce the amount nitrogen discharged from the Plant. The plan will involve planning, design and capital improvements that will commence in FY2019 and be completed by 2026 at an estimated total cost of \$25 million to be paid for by sewer user charges.

28. Leases

The Town is the lessor in an agreement with Southeastern Massachusetts Educational Collaborative to lease the Tripp School building. The lease agreement is for a term of five years beginning November 1, 2016 and terminating on October 31, 2021. Following is the future minimum rental income to be received by the Town under the terms of this lease for the year ending June 30:

2018	\$	36,480
2019		37,209
2020		37,954
2021		38,712
2022		<u>12,989</u>
Total	\$	<u><u>163,344</u></u>

29. 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 FAIRHAVEN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017
(Unaudited)

Fairhaven Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	96.71%	\$21,500,000	\$ 10,759,955	199.81%	71.00%
June 30, 2016	December 31, 2015	96.56%	\$18,463,000	\$ 10,200,598	181.00%	72.70%
June 30, 2015	December 31, 2014	96.46%	\$16,607,000	\$ 10,190,034	162.97%	75.49%

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	0.176155%	-	\$ 39,384,609	\$ 39,384,609	\$ 11,586,868	-	52.73%
June 30, 2016	June 30, 2015	0.180847%	-	\$ 37,054,975	\$ 37,054,975	\$ 11,463,689	-	55.38%
June 30, 2015	June 30, 2014	0.184015%	-	\$ 29,251,667	\$ 29,251,667	\$ 11,282,869	-	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 FAIRHAVEN, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

**JUNE 30, 2017
(Unaudited)**

Fairhaven Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 2,799,586	\$ 2,859,586	\$ (60,000)	\$ 10,759,955	26.58%
June 30, 2016	\$ 2,662,396	\$ 2,679,322	\$ (16,926)	\$ 10,200,598	26.27%
June 30, 2015	\$ 2,533,204	\$ 2,533,204	\$ -	\$ 10,190,034	24.86%

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

See Independent Auditors' Report.

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

June 30, 2017

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/10	\$ -	\$ 48,462	\$ 48,462	0.0%	\$ 16,023	302.5%
07/01/12	\$ -	\$ 39,723	\$ 39,723	0.0%	\$ 12,680	313.3%
07/01/14	\$ 85	\$ 39,441	\$ 39,356	0.2%	N/A	N/A
07/01/16	\$ 222	\$ 44,228	\$ 44,006	0.5%	\$ 26,997	163.0%

See Independent Auditors' Report.

**TOWN OF FAIRHAVEN, 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	\$ 1,596,309
Interest on unfunded liability - time value of \$	1,763,894
Benefit payments, including refunds of member contributions	<u>(1,202,254)</u>
Net change in total OPEB liability	2,157,949
Total OPEB liability - beginning	<u>46,036,444</u>
Total OPEB liability - ending (a)	<u>\$ 48,194,393</u>
Plan fiduciary net position	
Contributions - employer	\$ 1,302,254
Net investment income	24,778
Benefit payments, including refunds of member contributions	<u>(1,202,254)</u>
Net change in plan fiduciary net position	124,778
Plan fiduciary net position - beginning	<u>222,294</u>
Plan fiduciary net position - ending (b)	<u>\$ 347,072</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 47,847,321</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 FAIRHAVEN, 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	\$ 48,194,393
Plan fiduciary net position	<u>347,072</u>
Net OPEB liability (asset)	<u>\$ 47,847,321</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.72%
Covered payroll	\$ 26,997,261
Participating employer net OPEB liability (asset) as a percentage of covered payroll	177.23%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 4,143,844
Contributions in relation to the actuarially determined contribution	<u>1,302,254</u>
Contribution deficiency (excess)	<u>\$ 2,841,590</u>
Covered payroll	\$ 26,997,261
Contributions as a percentage of covered payroll	4.82%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	9.14%

*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.