

TOWN OF FAIRHAVEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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, 2016, (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2015) 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, 2016, (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2015) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

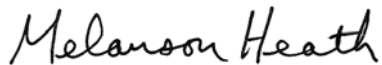
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Pension Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns 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 23, 2017 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.

A handwritten signature in cursive script that reads "Melanson Heath".

March 23, 2017

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, 2016.

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 funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer, and water operations.

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.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, and water operations, all of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial 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

- At the end of the current fiscal year, total assets exceeded liabilities by \$113,374,812 (i.e., total net position), a change of \$3,484,073 in comparison to the prior year.
- At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$21,390,535, a change of \$2,197,030 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,557,172, a change of \$2,258,482 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the end of the current fiscal year was \$16,237,101 a change of \$(2,840,429) 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 31,698	\$ 28,774	\$ 5,560	\$ 6,418	\$ 37,258	\$ 35,192
Noncurrent assets	100,108	99,197	32,740	32,604	132,848	131,801
Deferred outflows	<u>2,502</u>	<u>59</u>	<u>420</u>	<u>8</u>	<u>2,922</u>	<u>67</u>
Total assets and deferred outflows	134,308	128,030	38,720	39,030	173,028	167,060
Current liabilities	7,132	6,429	558	608	7,690	7,037
Noncurrent liabilities	44,754	43,238	7,084	6,894	51,838	50,132
Deferred inflows	<u>92</u>	<u>-</u>	<u>33</u>	<u>-</u>	<u>125</u>	<u>-</u>
Total liabilities and deferred inflows	51,978	49,667	7,675	7,502	59,653	57,169
Net position:						
Net investment in capital assets	83,843	80,173	27,409	26,659	111,252	106,832
Restricted	8,507	8,805	-	-	8,507	8,805
Unrestricted	<u>(10,020)</u>	<u>(10,615)</u>	<u>3,636</u>	<u>4,869</u>	<u>(6,384)</u>	<u>(5,746)</u>
Total net position	<u>\$ 82,330</u>	<u>\$ 78,363</u>	<u>\$ 31,045</u>	<u>\$ 31,528</u>	<u>\$ 113,375</u>	<u>\$ 109,891</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,427	\$ 5,200	\$ 6,097	\$ 6,593	\$ 11,524	\$ 11,793
Operating grants and contributions	16,643	14,863	-	-	16,643	14,863
Capital grants and contributions	1,258	407	-	95	1,258	502
General revenues:						
Property taxes	26,693	26,330	-	-	26,693	26,330
Excises	1,828	1,772	-	-	1,828	1,772
Penalties, interest and other taxes	352	324	-	-	352	324
Grants and contributions not restricted to specific programs	3,154	2,940	-	-	3,154	2,940
Capital contributions	-	419	-	-	-	419
Investment income	129	80	13	(7)	142	73
Miscellaneous	421	829	-	-	421	829
Total revenues	55,905	53,164	6,110	6,681	62,015	59,845
Expenses:						
General government	2,736	3,233	-	-	2,736	3,233
Public safety	9,135	8,905	-	-	9,135	8,905
Education	31,937	30,599	-	-	31,937	30,599
Public works	4,039	3,837	-	-	4,039	3,837
Human services	1,958	1,994	-	-	1,958	1,994
Culture and recreation	1,209	1,173	-	-	1,209	1,173
Interest on long-term debt	402	849	-	-	402	849
Intergovernmental	429	421	-	-	429	421
Sewer	-	-	4,027	3,484	4,027	3,484
Water	-	-	2,584	2,075	2,584	2,075
Total expenses	51,845	51,011	6,611	5,559	58,456	56,570
Change in net position before transfers	4,060	2,153	(501)	1,122	3,559	3,275
Transfers in (out)	(93)	854	18	(904)	(75)	(50)
Change in net position	3,967	3,007	(483)	218	3,484	3,225
Net position - beginning of year	78,363	75,356	31,528	31,310	109,891	106,666
Net position - end of year	\$ 82,330	\$ 78,363	\$ 31,045	\$ 31,528	\$ 113,375	\$ 109,891

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the end of the most recent fiscal year, total net position was \$113,374,812, a change of \$3,484,073 from the prior year.

The largest portion of net position \$111,252,107 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 totaling \$8,506,810 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 \$(6,384,105), resulting from unfunded OPEB and net pension liabilities (see Notes 26 and 27).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$3,966,349. Key elements of this change are as follows:

General fund operations, as discussed further	
in Section D	\$ 2,495,290
Nonmajor governmental funds operations	(298,260)
Internal service fund operations	180,539
Capital asset acquisitions	4,290,919
Depreciation expense in excess of debt service	
principal paydown	(621,214)
Increase in deferred outflows	2,443,000
Increase in OPEB liability	(1,974,347)
Increase in net pension liability	(2,169,000)
Other	(380,578)
Total	<u>\$ 3,966,349</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(482,276). Key elements of this change are as follows:

Sewer fund operations	\$ (691,124)
Water operations	<u>208,848</u>
Total	<u>\$ (482,276)</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, unreserved 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 \$21,390,535, a change of \$2,197,030 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance	\$ 2,495,290
Nonmajor governmental funds change in fund balance	<u>(298,260)</u>
Total	<u>\$ 2,197,030</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 \$9,557,172 while total fund balance was \$12,830,048. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 9,557,172	\$ 7,298,690	\$ 2,258,482	22.1%
Total fund balance	\$ 12,830,048	\$ 10,334,758	\$ 2,495,290	29.7%

⁽¹⁾ Includes general stabilization fund.

The total fund balance of the general fund changed by \$2,495,290 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (2,439,747)
Revenues in excess of budget	2,135,422
Expenditures less than budget	1,480,855
Expenditure timing differences	776,667
Change in stabilization	128,333
Other	<u>413,760</u>
Total	<u>\$ 2,495,290</u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 2,975,329	\$ 2,896,036	\$ 79,293
Ambulance stabilization	48,804	-	48,804
Capital stabilization	<u>237</u>	<u>-</u>	<u>237</u>
Total	<u>\$ 3,024,370</u>	<u>\$ 2,896,036</u>	<u>\$ 128,334</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 \$3,635,926 a change of \$(1,232,880) 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 \$922,442. Major reasons for these amendments include:

- \$25,000 to fund the design and construction of sewer tie-in at the fire station #3 building.
- \$27,160 to fund the reconstruction and hard-surfacing on Welcome Street.
- \$870,282 to fund the Hasting Middle School roof repair and replacement.

The Town experienced a large favorable revenue variance of \$1,262,617 for the miscellaneous line item. This favorable variance is primarily due to wind turbine revenue.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$127,439,586 (net of accumulated depreciation), a change of \$1,579,880 from the prior year. 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 \$16,237,101 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, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 22,719,045	\$ 4,448,718	\$ 27,167,763
Investments	4,277,390	263,797	4,541,187
Receivables, net of allowance for uncollectibles:			
Property taxes	792,450	-	792,450
Excises	146,605	-	146,605
User fees	22,387	551,923	574,310
Departmental and other	357,751	-	357,751
Special assessments	625	242,574	243,199
Intergovernmental	1,334,987	-	1,334,987
Notes receivable	1,105,386	-	1,105,386
Deposits held by others	896,300	-	896,300
Other assets	45,280	53,778	99,058
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	768,971	-	768,971
User fees	-	273,910	273,910
Special assessments	21,802	1,660,168	1,681,970
Intergovernmental	2,682,991	-	2,682,991
Capital assets:			
Land and construction in progress	24,299,641	2,942,526	27,242,167
Other capital assets, net of accumulated depreciation	72,334,280	27,863,139	100,197,419
DEFERRED OUTFLOWS OF RESOURCES	<u>2,502,000</u>	<u>420,000</u>	<u>2,922,000</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	134,307,891	38,720,533	173,028,424
LIABILITIES			
Current:			
Warrants and accounts payable	2,344,264	103,003	2,447,267
Accrued liabilities	1,337,813	78,873	1,416,686
Tax refunds payable	249,822	-	249,822
Other current liabilities	524,747	14,838	539,585
Current portion of long-term liabilities:			
Bonds payable	2,485,714	356,995	2,842,709
Landfill post-closure	25,000	-	25,000
Accrued employee benefits	100,400	4,673	105,073
Special termination benefits	64,043	-	64,043
Noncurrent:			
Bonds payable, net of current portion	10,305,428	3,088,964	13,394,392
Landfill post-closure, net of current portion	325,000	-	325,000
Accrued employee benefits, net of current portion	903,602	42,050	945,652
Special termination benefits, net of current portion	143,866	-	143,866
Other post-employment benefits	16,887,634	1,678,883	18,566,517
Net pension liability	16,189,000	2,274,000	18,463,000
DEFERRED INFLOWS OF RESOURCES	<u>92,000</u>	<u>33,000</u>	<u>125,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	51,978,333	7,675,279	59,653,612
NET POSITION			
Net investment in capital assets	83,842,779	27,409,328	111,252,107
Restricted for:			
Grants and other statutory restrictions	5,946,166	-	5,946,166
Permanent funds:			
Nonexpendable	2,187,205	-	2,187,205
Expendable	373,439	-	373,439
Unrestricted	<u>(10,020,031)</u>	<u>3,635,926</u>	<u>(6,384,105)</u>
TOTAL NET POSITION	<u>\$ 82,329,558</u>	<u>\$ 31,045,254</u>	<u>\$ 113,374,812</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, 2016

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	Total
		Expenses					
Governmental Activities:							
General government	\$ 2,736,341	\$ 387,329	\$ 2,289,917	\$ -	\$ (59,095)	\$ -	\$ (59,095)
Public safety	9,134,621	1,612,905	348,401	-	(7,173,315)	-	(7,173,315)
Education	31,937,164	3,054,243	12,646,134	-	(16,236,787)	-	(16,236,787)
Public works	4,039,319	96,518	307,662	1,257,539	(2,377,600)	-	(2,377,600)
Human services	1,957,599	100	1,039,906	-	(917,593)	-	(917,593)
Culture and recreation	1,209,400	275,494	11,283	-	(922,623)	-	(922,623)
Interest on long-term debt	401,768	-	-	-	(401,768)	-	(401,768)
Intergovernmental	429,296	-	-	-	(429,296)	-	(429,296)
Total Governmental Activities	51,845,508	5,426,589	16,643,303	1,257,539	(28,518,077)	-	(28,518,077)
Business-Type Activities:							
Sewer	4,027,270	3,304,621	-	-	-	(722,649)	(722,649)
Water	2,584,073	2,792,513	-	-	-	208,440	208,440
Total Business-Type Activities	6,611,343	6,097,134	-	-	-	(514,209)	(514,209)
Total	\$ 58,456,851	\$ 11,523,723	\$ 16,643,303	\$ 1,257,539	(28,518,077)	(514,209)	(29,032,286)
General Revenues and Transfers:							
Property taxes					26,693,181	-	26,693,181
Excises					1,827,504	-	1,827,504
Penalties, interest and other taxes					352,050	-	352,050
Grants and contributions not restricted to specific programs					3,153,593	-	3,153,593
Investment income					129,329	14,354	143,683
Miscellaneous					421,348	-	421,348
Transfers, net					(92,579)	17,579	(75,000)
Total general revenues and transfers					32,484,426	31,933	32,516,359
Change in Net Position					3,966,349	(482,276)	3,484,073
Net Position:							
Beginning of year					78,363,209	31,527,530	109,890,739
End of year					\$ 82,329,558	\$ 31,045,254	\$ 113,374,812

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 13,824,185	\$ 6,134,110	\$ 19,958,295
Investments	1,616,795	2,660,595	4,277,390
Receivables:			
Property taxes	1,724,343	16,739	1,741,082
Excises	249,171	-	249,171
User fees	-	22,387	22,387
Departmental and other	7,075	350,676	357,751
Special assessments	-	22,427	22,427
Intergovernmental	183,484	2,823,136	3,006,620
Notes receivable	-	1,105,386	1,105,386
Other assets	43,375	1,905	45,280
TOTAL ASSETS	<u>\$ 17,648,428</u>	<u>\$ 13,137,361</u>	<u>\$ 30,785,789</u>
LIABILITIES			
Warrants payable	\$ 1,995,315	\$ 348,949	\$ 2,344,264
Accrued liabilities	515,481	28,051	543,532
Other liabilities	524,747	-	524,747
TOTAL LIABILITIES	3,035,543	377,000	3,412,543
DEFERRED INFLOWS OF RESOURCES	1,782,837	4,199,874	5,982,711
FUND BALANCES			
Nonspendable	-	2,187,205	2,187,205
Restricted	-	6,479,647	6,479,647
Committed	1,468,669	-	1,468,669
Assigned	1,804,207	-	1,804,207
Unassigned	9,557,172	(106,365)	9,450,807
TOTAL FUND BALANCES	<u>12,830,048</u>	<u>8,560,487</u>	<u>21,390,535</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 17,648,428</u>	<u>\$ 13,137,361</u>	<u>\$ 30,785,789</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, 2016

Total governmental fund balances	\$ 21,390,535												
<ul style="list-style-type: none"> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	96,633,921												
<ul style="list-style-type: none"> Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	5,450,661												
<ul style="list-style-type: none"> Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in governmental funds. 	1,011,359												
<ul style="list-style-type: none"> 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. 	2,930,751												
<ul style="list-style-type: none"> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(67,982)												
<ul style="list-style-type: none"> Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds: <table> <tr> <td>Bonds payable</td><td>(12,791,142)</td></tr> <tr> <td>Landfill post-closure</td><td>(350,000)</td></tr> <tr> <td>Accrued employee benefits</td><td>(1,004,002)</td></tr> <tr> <td>Special termination benefits</td><td>(207,909)</td></tr> <tr> <td>Other post-employment benefits</td><td>(16,887,634)</td></tr> <tr> <td>Net pension liability</td><td>(16,189,000)</td></tr> </table> 	Bonds payable	(12,791,142)	Landfill post-closure	(350,000)	Accrued employee benefits	(1,004,002)	Special termination benefits	(207,909)	Other post-employment benefits	(16,887,634)	Net pension liability	(16,189,000)	
Bonds payable	(12,791,142)												
Landfill post-closure	(350,000)												
Accrued employee benefits	(1,004,002)												
Special termination benefits	(207,909)												
Other post-employment benefits	(16,887,634)												
Net pension liability	(16,189,000)												
<ul style="list-style-type: none"> Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds: 	<u>2,410,000</u>												
Net position of governmental activities	<u>\$ 82,329,558</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, 2016

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 26,461,732	\$ 354,451	\$ 26,816,183
Excises	1,922,402	-	1,922,402
Penalties, interest and other taxes	349,836	2,303	352,139
Charges for services	2,945,966	2,335,040	5,281,006
Licenses and permits	515,571	-	515,571
Intergovernmental	12,157,755	5,255,123	17,412,878
Fines and forfeitures	3,795	-	3,795
Investment income	99,397	(33,290)	66,107
Contributions	-	228,405	228,405
Miscellaneous	<u>602,531</u>	<u>132,944</u>	<u>735,475</u>
Total Revenues	45,058,985	8,274,976	53,333,961
Expenditures:			
Current:			
General government	1,747,699	2,470,342	4,218,041
Public safety	5,676,847	290,189	5,967,036
Education	20,998,190	3,022,041	24,020,231
Public works	2,300,763	461,735	2,762,498
Human services	1,558,524	254,366	1,812,890
Culture and recreation	732,901	292,176	1,025,077
Insurance and benefits	6,133,121	243,222	6,376,343
Debt service	2,879,144	-	2,879,144
Intergovernmental	429,296	-	429,296
Capital outlay	<u>793,366</u>	<u>760,430</u>	<u>1,553,796</u>
Total Expenditures	<u>43,249,851</u>	<u>7,794,501</u>	<u>51,044,352</u>
Excess (deficiency) of revenues over expenditures	1,809,134	480,475	2,289,609
Other Financing Sources (Uses):			
Transfers in	906,781	128,046	1,034,827
Transfers out	<u>(220,625)</u>	<u>(906,781)</u>	<u>(1,127,406)</u>
Total Other Financing Sources (Uses)	<u>686,156</u>	<u>(778,735)</u>	<u>(92,579)</u>
Change in fund balance	2,495,290	(298,260)	2,197,030
Fund Equity, at Beginning of Year	<u>10,334,758</u>	<u>8,858,747</u>	<u>19,193,505</u>
Fund Equity, at End of Year	<u>\$ 12,830,048</u>	<u>\$ 8,560,487</u>	<u>\$ 21,390,535</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, 2016

Net changes in fund balances - total governmental funds	\$ 2,197,030																
<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> <tr> <td>Capital outlay purchases</td><td style="text-align: right;">4,290,919</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(3,092,928)</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. <div style="text-align: right;">575,474</div> Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <div style="text-align: right;">(1,011,361)</div> 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> <tr> <td>Repayments of debt</td><td style="text-align: right;">2,471,714</td></tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">5,662</div> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Landfill post-closure</td><td style="text-align: right;">25,000</td></tr> <tr> <td>Accrued employee benefits</td><td style="text-align: right;">57,348</td></tr> <tr> <td>Special termination benefits</td><td style="text-align: right;">59,299</td></tr> <tr> <td>Other post-employment benefits</td><td style="text-align: right;">(1,974,347)</td></tr> <tr> <td>Net pension liability</td><td style="text-align: right;">182,000</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. <div style="text-align: right;">180,539</div> 	Capital outlay purchases	4,290,919	Depreciation	(3,092,928)	Repayments of debt	2,471,714	Landfill post-closure	25,000	Accrued employee benefits	57,348	Special termination benefits	59,299	Other post-employment benefits	(1,974,347)	Net pension liability	182,000	
Capital outlay purchases	4,290,919																
Depreciation	(3,092,928)																
Repayments of debt	2,471,714																
Landfill post-closure	25,000																
Accrued employee benefits	57,348																
Special termination benefits	59,299																
Other post-employment benefits	(1,974,347)																
Net pension liability	182,000																
Change in net position of governmental activities	\$ <u>3,966,349</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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 26,055,073	\$ 26,055,073	\$ 26,055,073	\$ -
Excises	1,520,000	1,520,000	1,922,402	402,402
Penalties, interest and other taxes	470,000	470,000	506,262	36,262
Charges for services	2,824,000	2,824,000	2,945,966	121,966
Licenses and permits	400,000	400,000	515,571	115,571
Intergovernmental	11,802,451	11,802,451	12,001,329	198,878
Fines and forfeitures	6,000	6,000	3,795	(2,205)
Investment income	20,000	20,000	19,835	(165)
Miscellaneous	-	-	1,262,617	1,262,617
Transfers in	2,062,402	2,462,402	2,462,498	96
Use of free cash	1,842,305	2,364,747	2,364,747	-
Other sources	75,000	75,000	75,000	-
Total Revenues and Other Sources	47,077,231	47,999,673	50,135,095	2,135,422
Expenditures and Other Uses:				
General government	2,024,788	2,009,598	1,799,215	210,383
Public safety	5,668,471	5,758,366	5,675,950	82,416
Education	20,973,062	20,980,893	20,979,446	1,447
Public works	2,318,277	2,360,437	2,263,506	96,931
Human services	1,773,183	1,773,833	1,564,842	208,991
Culture and recreation	736,321	737,321	733,048	4,273
Insurance and benefits	7,793,396	7,654,448	7,312,284	342,164
Debt service	3,060,032	3,060,032	2,896,723	163,309
Intergovernmental	427,626	427,626	429,296	(1,670)
Capital outlay	2,195,454	3,130,498	2,736,462	394,036
Transfers out	103,927	103,927	128,046	(24,119)
Other uses	2,694	2,694	-	2,694
Total Expenditures and Other Uses	47,077,231	47,999,673	46,518,818	1,480,855
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,616,277	\$ 3,616,277

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer Fund	Water Fund	Total	
ASSETS				
Current:				
Cash and short-term investments	\$ 2,873,735	\$ 1,574,983	\$ 4,448,718	\$ 2,760,749
Investments	263,797	-	263,797	-
Deposits held by others	-	-	-	896,300
Receivables, net of allowance for uncollectibles:				
User fees	307,239	244,684	551,923	-
Special assessments	241,518	1,056	242,574	-
Other	3,281	50,497	53,778	-
Total current assets	3,689,570	1,871,220	5,560,790	3,657,049
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
User fees	168,338	105,572	273,910	-
Special assessments	1,660,168	-	1,660,168	-
Capital assets:				
Land and construction in progress	2,193,253	749,273	2,942,526	-
Other capital assets, net of accumulated depreciation	24,373,080	3,490,059	27,863,139	-
Total noncurrent assets	28,394,839	4,344,904	32,739,743	-
DEFERRED OUTFLOWS OF RESOURCES	275,000	145,000	420,000	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	32,359,409	6,361,124	38,720,533	3,657,049
LIABILITIES				
Current:				
Accounts payable	100,169	2,834	103,003	432,097
Accrued liabilities	47,788	31,085	78,873	294,201
Other current liabilities	14,088	750	14,838	-
Current portion of long-term liabilities:				
Bonds payable	309,351	47,644	356,995	-
Accrued employee benefits	4,383	290	4,673	-
Total current liabilities	475,779	82,603	558,382	726,298
Noncurrent:				
Bonds payable, net of current portion	2,273,712	815,252	3,088,964	-
Accrued employee benefits, net of current portion	39,441	2,609	42,050	-
Other post-employment benefits	1,178,170	500,713	1,678,883	-
Net pension liability	1,524,000	750,000	2,274,000	-
Total noncurrent liabilities	5,015,323	2,068,574	7,083,897	-
DEFERRED INFLOWS OF RESOURCES	-	33,000	33,000	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,491,102	2,184,177	7,675,279	726,298
NET POSITION				
Net investment in capital assets	23,983,269	3,426,059	27,409,328	-
Unrestricted	2,885,038	750,888	3,635,926	2,930,751
TOTAL NET POSITION	\$ 26,868,307	\$ 4,176,947	\$ 31,045,254	\$ 2,930,751

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, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 2,676,737	\$ 2,788,564	\$ 5,465,301	\$ -
Employee and employer contributions	-	-	-	6,011,694
Special assessments	627,884	971	628,855	-
Other	-	2,978	2,978	-
Total Operating Revenues	3,304,621	2,792,513	6,097,134	6,011,694
Operating Expenses:				
Personnel services	1,559,514	917,751	2,477,265	-
Non-personnel services	1,172,094	330,275	1,502,369	-
Depreciation	1,201,681	142,443	1,344,124	-
Intergovernmental	-	1,169,292	1,169,292	-
Employee benefits	-	-	-	5,832,584
Total Operating Expenses	3,933,289	2,559,761	6,493,050	5,832,584
Operating Income (Loss)	(628,668)	232,752	(395,916)	179,110
Nonoperating Revenues (Expenses):				
Investment income	13,946	408	14,354	1,429
Interest expense	(93,981)	(24,312)	(118,293)	-
Total Nonoperating Revenues (Expenses), Net	(80,035)	(23,904)	(103,939)	1,429
Income (Loss) Before Transfers	(708,703)	208,848	(499,855)	180,539
Transfers:				
Transfers in	17,579	-	17,579	-
Total transfers in (out)	17,579	-	17,579	-
Change in Net Position	(691,124)	208,848	(482,276)	180,539
Net Position at Beginning of Year	27,559,431	3,968,099	31,527,530	2,750,212
Net Position at End of Year	\$ 26,868,307	\$ 4,176,947	\$ 31,045,254	\$ 2,930,751

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, 2016

	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	\$ 3,652,056	\$ 2,782,272	\$ 6,434,328	\$ 6,011,694
Payments to vendors and employees	(2,616,326)	(2,384,818)	(5,001,144)	(5,640,409)
Net Cash Provided By (Used For) Operating Activities	1,035,730	397,454	1,433,184	371,285
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	17,579	-	17,579	-
Net Cash Provided By (Used For) Noncapital Financing Activities	17,579	-	17,579	-
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(1,648,340)	(77,673)	(1,726,013)	-
Proceeds from issuance of bonds and notes	-	(1,768)	(1,768)	-
Principal payments on bonds and notes	(321,765)	(46,950)	(368,715)	-
Interest expense	(94,870)	(25,003)	(119,873)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,064,975)	(151,394)	(2,216,369)	-
<u>Cash Flows From Investing Activities:</u>				
Investments	(5,601)	-	(5,601)	-
Investment income	13,946	408	14,354	1,429
Net Cash Provided By Investing Activities	8,345	408	8,753	1,429
Net Change in Cash and Short-Term Investments	(1,003,321)	246,468	(756,853)	372,714
Cash and Short-Term Investments, Beginning of Year	3,877,056	1,328,515	5,205,571	2,388,035
Cash and Short-Term Investments, End of Year	\$ 2,873,735	\$ 1,574,983	\$ 4,448,718	\$ 2,760,749
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (628,668)	\$ 232,752	\$ (395,916)	\$ 179,110
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,201,681	142,443	1,344,124	-
Changes in assets and liabilities:				
User fees	(17,795)	(12,442)	(30,237)	-
Special assessments	385,822	1,451	387,273	-
Other receivables	(3,281)	-	(3,281)	290,300
Deferred outflows	(270,000)	(142,000)	(412,000)	-
Accounts payable	(26,151)	(33,819)	(59,970)	(64,773)
Accrued liabilities	23,641	23,607	47,248	(33,352)
Net pension liability	252,000	141,000	393,000	-
Other liabilities	118,481	11,462	129,943	-
Deferred inflows	-	33,000	33,000	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,035,730	\$ 397,454	\$ 1,433,184	\$ 371,285

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

TOWN OF FAIRHAVEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust Fund (As of <u>December 31, 2015</u>)	Other Post- Employment Benefits <u>Trust Fund</u>	Private Purpose <u>Trust Fund</u>	Agency <u>Fund</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 933,369	\$ 362	\$ 284,382	\$ 880,931
Investments	49,977,897	221,932	234,592	-
Accounts receivable	<u>132,339</u>	<u>-</u>	<u>-</u>	<u>12,942</u>
Total Assets	51,043,605	222,294	518,974	893,873
<u>LIABILITIES AND NET POSITION</u>				
Warrants payable	-	-	1,680	44,370
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>830,852</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,680</u>	<u>893,873</u>
<u>NET POSITION</u>				
Total net position held in trust	\$ <u>51,043,605</u>	\$ <u>222,294</u>	\$ <u>517,294</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, 2016

	Pension Trust Fund (For the Year Ended December 31, 2015)	Other Post- Employment Benefits Trust Fund	Private Purpose Trust Fund
Additions:			
Contributions:			
Employers	\$ 2,771,526	\$ -	\$ -
Plan members	1,082,467	-	-
Other	<u>156,682</u>	<u>-</u>	<u>12,550</u>
Total contributions	4,010,675	-	12,550
Investment Income (Loss):			
Investment income	3,156,319	5,810	5,959
Decrease in fair value of investments	(2,591,306)	817	(41,813)
Less: management fees	<u>(261,095)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>303,918</u>	<u>6,627</u>	<u>(35,854)</u>
Total additions	4,314,593	6,627	(23,304)
Deductions:			
Benefit payments to plan members, beneficiaries, and other systems	3,900,525	-	-
Member refunds and transfers to other systems	58,461	-	-
Administrative expenses	86,356	-	-
Other	<u>-</u>	<u>-</u>	<u>14,388</u>
Total deductions	<u>4,045,342</u>	<u>-</u>	<u>14,388</u>
Other financing sources (uses):			
Transfer in	<u>-</u>	<u>75,000</u>	<u>-</u>
Net increase	269,251	81,627	(37,692)
Net position:			
Beginning of year	<u>50,774,354</u>	<u>140,667</u>	<u>554,986</u>
End of year	<u>\$ 51,043,605</u>	<u>\$ 222,294</u>	<u>\$ 517,294</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 interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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*, as is the proprietary fund and fiduciary fund financial statements. 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.

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 government 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 *Pension Trust Fund* accounts for the activities of the Fairhaven Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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 *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 *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 market 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 2016 tax levy reflected an excess capacity of \$41,744.

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 \$25,000 (machinery and equipment) or \$100,000 (land, buildings and improvements and infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 current assets and current liabilities. 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.

The Town’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year’s budget is voted by Town Meeting.
- 5) Unassigned funds are available to be spent 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. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 45,058,985	\$ 43,249,851
Other financing sources/uses (GAAP Basis)	<u>906,781</u>	<u>220,625</u>
Subtotal (GAAP Basis)	45,965,766	43,470,476
Adjust tax revenue to accrual basis	(406,659)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(938,919)
Add end-of-year appropriation carryforwards from expenditures	-	1,715,586
Record use of free cash	2,364,747	-
Record use of overlay surplus	75,000	-
Reverse effect of combining stabilization funds with general fund per GASB 54	320,439	448,772
Reverse non-budgeted activity	<u>1,815,802</u>	<u>1,822,903</u>
Budgetary Basis	<u>\$ 50,135,095</u>	<u>\$ 46,518,818</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2016:

Non-Major Governmental Funds:	
School grants	\$ 1,818
Town grants	88,372
Chapter 90 projects	<u>16,175</u>
Total	<u>\$ 106,365</u>

The temporary deficits in these funds will be eliminated through future intergovernmental revenues.

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) have deposit policies for custodial credit risk.

As of June 30, 2016, \$7,735,894 of the Town's bank balance of \$28,670,392 was exposed to custodial credit risk as uninsured or uncollateralized.

As of December 31, 2015, \$650,462 of the System's bank balance of \$1,038,952 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.):

Investment Type	Balance	Minimum Legal Rating	Rating as of Year-end				
			AAA	A2	A1	BAA1	Not Rated
Certificates of deposits	\$ 534	N/A	\$ -	\$ -	\$ -	\$ -	\$ 534
Federal agency securities	987	N/A	987	-	-	-	-
Corporate bonds	467	N/A	-	266	126	75	-
Corporate equities	770	N/A	-	-	-	-	770
Mutual funds	<u>2,239</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,239</u>
Total investments	<u>\$ 4,997</u>		<u>\$ 987</u>	<u>\$ 266</u>	<u>\$ 126</u>	<u>\$ 75</u>	<u>\$ 3,543</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.

At December 31, 2015, the System maintained its investments in the State Investment Pool* with a fair value of \$49,977,897. This investment type is not rated.

**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.

As of December 31, 2015, all of the System's investments were exposed to custodial credit risk as uninsured and uncollateralized. The System manages this risk by holding all investments in the State pool (PRIT).

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, 2016, the Town did not hold any individual investments (other than mutual funds and federal agencies) 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 have 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>Balance</u>	<u>Investment Maturities</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 534	\$ -	\$ 534
Federal agency securities	987	-	987
Corporate bonds	<u>467</u>	<u>126</u>	<u>341</u>
Total	<u>\$ 1,988</u>	<u>\$ 126</u>	<u>\$ 1,862</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, 2016 except for the System's investment in an external investment pool which has a measurement date of December 31, 2015:

		Fair Value Measurements Using:			
<u>Description</u>		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:					
Debt securities:					
Federal agency securities	\$ 987	\$ -	\$ 987	\$ -	
Corporate bonds	467	-	467	-	
Equity securities:					
Corporate equities	770	770	-	-	
Mutual funds	2,239	2,239	-	-	
Investments measured at the net asset value (NAV):					
External investment pool (System)	<u>49,978</u>	-	-	-	
Total	<u>\$ 54,441</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)		\$ 49,978	\$ -	Monthly	30 days

5. Taxes 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.

Fourteen days after the due date for the final tax bill for real estate taxes, 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.

Taxes receivable at June 30, 2016 consist of the following:

Real Estate		
2016	\$ 447,170	
2015	3,659	
2014	1,100	
Prior	<u>918</u>	
		452,847
Personal Property		
2016	7,298	
2015	7,279	
Prior	<u>12,334</u>	
		26,911
Tax Liens		1,225,401
I & E Liens		2,250
Tax Deferrals		16,934
Community Preservation		<u>16,739</u>
Total		<u>\$ 1,741,082</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 179,661	\$ -
Excises	\$ 102,566	\$ -
Sewer	\$ -	\$ 32,432
Water	\$ -	\$ 24,779

7. User Fee Receivables

In the governmental activities, this balance represents waterway user fees. In the business-type activities, this balance represents water and sewer usage charges, including unpaid charges that have been moved to tax bills and subsequently lienied.

8. 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.

9. Special Assessments Receivable

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

10. 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.

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, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 67,047	\$ -	\$ -	\$ 67,047
Improvements	11,358	286	-	11,644
Machinery and equipment	4,217	374	-	4,591
Infrastructure	28,672	1,762	-	30,434
Total capital assets, being depreciated	111,294	2,422	-	113,716
Less accumulated depreciation for:				
Buildings	(18,742)	(1,628)	-	(20,370)
Improvements	(4,495)	(421)	-	(4,916)
Machinery and equipment	(3,051)	(267)	-	(3,318)
Infrastructure	(12,001)	(777)	-	(12,778)
Total accumulated depreciation	(38,289)	(3,093)	-	(41,382)
Total capital assets, being depreciated, net	73,005	(671)	-	72,334
Capital assets, not being depreciated:				
Land	22,099	-	-	22,099
Construction in progress	332	1,925	(56)	2,201
Total capital assets, not being depreciated	22,431	1,925	(56)	24,300
Governmental activities capital assets, net	\$ 95,436	\$ 1,254	\$ (56)	\$ 96,634

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and system	\$ 36,452	\$ -	\$ -	\$ 36,452
Improvements other than buildings	20,835	478	-	21,313
Machinery and equipment	<u>3,447</u>	<u>88</u>	<u>-</u>	<u>3,535</u>
Total capital assets, being depreciated	60,734	566	-	61,300
Less accumulated depreciation for:				
Buildings and system	(21,037)	(569)	-	(21,606)
Improvements other than buildings	(8,190)	(711)	-	(8,901)
Machinery and equipment	<u>(2,866)</u>	<u>(64)</u>	<u>-</u>	<u>(2,930)</u>
Total accumulated depreciation	<u>(32,093)</u>	<u>(1,344)</u>	<u>-</u>	<u>(33,437)</u>
Total capital assets, being depreciated, net	28,641	(778)	-	27,863
Capital assets, not being depreciated:				
Land	989	-	-	989
Construction in progress	<u>793</u>	<u>1,374</u>	<u>(213)</u>	<u>1,954</u>
Total capital assets, not being depreciated	<u>1,782</u>	<u>1,374</u>	<u>(213)</u>	<u>2,943</u>
Business-type activities capital assets, net	<u>\$ 30,423</u>	<u>\$ 596</u>	<u>\$ (213)</u>	<u>\$ 30,806</u>

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

Governmental Activities:	
General government	\$ 95
Public safety	173
Education	1,726
Public works	990
Culture and recreation	<u>109</u>
Total depreciation expense - governmental activities	<u>\$ 3,093</u>
Business-Type Activities:	
Sewer fund	\$ 1,202
Water fund	<u>142</u>
Total depreciation expense - business-type activities	<u>\$ 1,344</u>

14. Deferred Outflows of Resources

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

The following is a summary of deferred outflows of resources balances as of June 30, 2016:

	Entity-wide Basis	
	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Pension related:		
Net difference between projected and actual pension investment earnings	\$ 2,502,000	\$ 352,000
Changes in proportion and differences between contributions and proportionate share of contributions	-	68,000
Total	\$ <u>2,502,000</u>	\$ <u>420,000</u>

15. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016. Accounts payable represent additional 2016 expenses paid after the close of the fiscal year.

16. Accrued Liabilities

Accrued liabilities consists 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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
Elementary school MSBA	11/01/18	2.0%	\$ 446,142
Elementary school	11/01/33	3.0 - 4.0%	8,150,000
High school - refunding	12/15/24	2.0 - 5.0%	420,000
Elementary and high school - refunding	03/15/27	2.0 - 3.0%	<u>3,775,000</u>
Total Governmental Activities:			<u>\$ 12,791,142</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
Sewer - Title V MWPAT	08/01/18	0.0%	\$ 32,604
Sewer - Title V MWPAT	02/01/21	0.0%	33,691
Sewer - Boulder Park MWPAT	08/01/18	4.0 - 5.2%	61,000
Sewer - USDA Rural Development	02/02/26	4.5%	143,559
Sewer Digester	01/15/33	2.0%	627,209
Sewer - Nancy Street refunding	12/15/19	2.0 - 5.0%	22,000
Sewer - UV Disinfection refunding	12/15/24	2.0 - 5.0%	635,000
Sewer - Sconticut Neck refunding	12/15/24	2.0 - 5.0%	1,028,000
Water - Boston Hill Water Tank	11/01/22	3.0 - 4.0%	105,000
Water - MCWT Boston Hill Water Tank	07/15/35	2.0%	<u>757,896</u>
Total Business-Type Activities:			<u>\$ 3,445,959</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,485,714	\$ 364,108	\$ 2,849,822
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 - 2026	3,400,000	937,995	4,337,995
Thereafter	<u>3,780,000</u>	<u>544,838</u>	<u>4,324,838</u>
Total	<u>\$ 12,791,142</u>	<u>\$ 2,942,741</u>	<u>\$ 15,733,883</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 356,995	\$ 18,008	\$ 375,003
2018	344,465	16,829	361,294
2019	337,091	15,676	352,767
2020	302,407	14,619	317,026
2021	294,688	13,548	308,236
2022 - 2026	1,126,461	52,212	1,178,673
Thereafter	683,852	40,901	724,753
Total	<u>\$ 3,445,959</u>	<u>\$ 171,793</u>	<u>\$ 3,617,752</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/15	Additions	Reductions	Total Balance 6/30/16	Less Current Portion	Equals Long-Term Portion 6/30/16
<u>Governmental Activities</u>						
Bonds payable	\$ 15,262	\$ -	\$ (2,471)	\$ 12,791	\$ (2,486)	\$ 10,305
Landfill post-closure	375	-	(25)	350	(25)	325
Accrued employee benefits	1,061	47	(104)	1,004	(100)	904
Special termination benefits	267	-	(59)	208	(64)	144
Net pension liability	14,020	2,169	-	16,189	-	16,189
Other post-employment benefits	<u>14,913</u>	<u>4,140</u>	<u>(2,165)</u>	<u>16,888</u>	<u>-</u>	<u>16,888</u>
Totals	<u>\$ 45,898</u>	<u>\$ 6,356</u>	<u>\$ (4,824)</u>	<u>\$ 47,430</u>	<u>\$ (2,675)</u>	<u>\$ 44,755</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,815	\$ -	\$ (369)	\$ 3,446	\$ (357)	\$ 3,089
Accrued employee benefits	81	-	(34)	47	(5)	42
Other post-employment benefits	1,495	332	(148)	1,679	-	1,679
Net pension liability	<u>1,881</u>	<u>393</u>	<u>-</u>	<u>2,274</u>	<u>-</u>	<u>2,274</u>
Totals	<u>\$ 7,272</u>	<u>\$ 725</u>	<u>\$ (551)</u>	<u>\$ 7,446</u>	<u>\$ (362)</u>	<u>\$ 7,084</u>

19. Landfill Post-closure Care Costs

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

The \$350,000 reported as landfill post-closure care liability at June 30, 2016 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 operating budget. Actual costs may be higher than estimates due to inflation, changes in technology, or changes in regulations.

20. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets 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 following is a summary of deferred inflow of resources balances as of June 30, 2016:

	Entity-wide Basis		Fund Basis	
	Governmental	Business-type	Governmental Funds	
	Activities	Activities	General Fund	Nonmajor
Committed property taxes	\$ -	\$ -	\$ 1,526,591	\$ 16,739
Committed excises	-	-	249,171	-
Unearned revenue - intergovernmental grants	-	-	-	4,183,135
Unearned revenue - departmental and other	-	-	7,075	-
Pension related:				
Changes in proportion and differences between contributions and proportionate share of contributions	92,000	33,000	-	-
Total	<u>\$ 92,000</u>	<u>\$ 33,000</u>	<u>\$ 1,782,837</u>	<u>\$ 4,199,874</u>

21. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

22. 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, 2016:

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, 2016:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 2,187,205	\$ 2,187,205
Total Nonspendable	-	2,187,205	2,187,205
Restricted			
Bonded projects	-	53,677	53,677
Special revenue funds	-	6,052,531	6,052,531
Expendable permanent funds	-	373,439	373,439
Total Restricted	-	6,479,647	6,479,647
Committed			
Carryover articles	1,419,628	-	1,419,628
Ambulance stabilization	48,804	-	48,804
Capital stabilization	237	-	237
Total Committed	1,468,669	-	1,468,669
Assigned			
Encumbrances	295,958	-	295,958
Reserve for expenditure	1,376,753	-	1,376,753
Future debt service	131,496	-	131,496
Total Assigned	1,804,207	-	1,804,207
Unassigned			
Stabilization funds	2,975,329	-	2,975,329
Undesignated	6,581,843	-	6,581,843
Special revenue fund deficits	-	(106,365)	(106,365)
Total Unassigned	9,557,172	(106,365)	9,450,807
Total Fund Balance	\$ 12,830,048	\$ 8,560,487	\$ 21,390,535

23. Interfund Transfers

The Town reports interfund transfers between various funds. The sum of all transfers presented in the table below agrees with the sum of interfund transfers presented in the governmental, proprietary, and fiduciary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2016:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
Governmental:			
General fund	\$ 906,781	\$ (220,625)	\$ 686,156
Nonmajor Funds:			
Special revenue funds:			
Recreation	103,927	-	103,927
Ambulance	-	(765,972)	(765,972)
Waterways	24,119	(62,495)	(38,376)
Other	-	(78,224)	(78,224)
Capital projects funds	<u>-</u>	<u>(90)</u>	<u>(90)</u>
Subtotal - Governmental	1,034,827	(1,127,406)	(92,579)
Business-Type:			
Sewer fund	<u>17,579</u>	<u>-</u>	<u>17,579</u>
Subtotal - Business-Type	17,579	-	17,579
Fiduciary Funds:			
OPEB Trust	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total	<u>\$ 1,127,406</u>	<u>\$ (1,127,406)</u>	<u>\$ -</u>

24. 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.

25. Subsequent Events

In July 2016, the Town entered into an agreement with SCG Development Partners to sell land with buildings and improvement thereon comprising a former school building known as the Oxford Elementary School located at 347 Main Street for \$325,000.

26. Post-Employment Healthcare and Life Insurance Benefits

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, 2014, the most recent actuarial valuation date, approximately 350 retirees and 335 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 2016 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, 2016, 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, 2014.

Annual Required Contribution (ARC)	\$ 3,410,151
Interest on net OPEB obligation	656,309
Adjustment to ARC	(912,366)
Amortization of actuarial gains (losses)	<u>405,020</u>
Annual OPEB cost	3,559,114
Contributions made	<u>(1,400,326)</u>
Increase in net OPEB obligation	2,158,788
Net OPEB obligation - beginning of year	<u>16,407,729</u>
Net OPEB obligation - end of year	<u><u>\$ 18,566,517</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>
2016	\$ 3,559,114	39.3%	\$ 18,566,517
2015	\$ 3,384,626	39.9%	\$ 16,407,729

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 39,441,501
Actuarial value of plan assets	<u>85,000</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 39,356,501</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ N/A</u></u>
UAAL as a percentage of covered payroll	<u><u>N/A</u></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, 2014 actuarial valuation the Projected Unit Credit 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 2.5% per annum, and an initial annual healthcare cost trend rate of 6%, which decreases to a 5% long-term rate for all healthcare benefits after eight years. The amortization of UAAL is a level dollar amortization over 30 years at the last valuation, with a remaining amortization period of 24 years at July 1, 2014.

In the July 1, 2014 actuarial valuation, the actuarial value of plan assets was \$85,085. However, in fiscal year 2012, the Town voted to accept the provisions of Massachusetts General Law Chapter 32B, Section 20 and established an Other Post-Employment Benefits Trust Fund for the purpose of funding future financial obligations of the Town for health insurance benefits of retirees. As of June 30, 2016, the total net position of this trust was \$222,294.

27. 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

The System is a member of the Fairhaven Contributory Retirement System (FCRS) and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems.

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority 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 is governed by a five-member board. The five members include two appointed by the Town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	185
Terminated plan members entitled to but not yet receiving benefits	63
Active plan members	<u>261</u>
Total	<u><u>509</u></u>
Number of participating employers	2

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 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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 require-

ments. 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, 2016 was \$2,679,322, which was \$16,926 more than its required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2014, and rolled forward to December 31, 2015.

The components of the net pension liability of the participating employers at June 30, 2016 were as follows:

Net Pension Liability of Employers

Total pension liability	\$ 70,165
Plan fiduciary net position	<u>(51,044)</u>
Employers' net pension liability	<u>\$ 19,121</u>
Plan fiduciary net position as a percentage of total pension liability	72.7%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2014 rolled forward to December 31, 2015
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
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 \$12,000

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment

mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study, dated January 1, 2014, which was for the period January 1, 2013 through December 31, 2013.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward three years.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.0%	7.60%
International equity	22.0%	8.60%
Fixed income	19.0%	5.20%
Private equity	10.0%	9.50%
Real estate	10.0%	6.50%
Timber/Natural Resources	4.0%	6.80%
Hedge Funds	9.0%	6.80%
Private Debt	4.0%	8.00%
Portfolio Completion Strategies	4.0%	N/A
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those

assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 25,797	\$ 18,463	\$ 12,131

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

At June 30, 2016, the Town reported a liability of \$18,463,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Town's proportion was 96.56%.

For the year ended June 30, 2016, the Town recognized pension expense of \$2,441,000. In addition, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings on pension plan investments	\$ 2,854,000	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>68,000</u>	<u>125,000</u>
Total	<u>\$ 2,922,000</u>	<u>\$ 125,000</u>

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

Year ended June 30:

2017	\$ 717,000
2018	717,000
2019	717,000
2020	<u>646,000</u>
Total	<u>\$ 2,797,000</u>

28. **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 non-employer 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>Hire 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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- 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, 2015 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%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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>Fiscal Year Ended</u>	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

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. Commonwealth Proportions Associated with the Town

In fiscal year 2015 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$37,054,975 and \$3,005,488 respectively, based on a proportionate share of 0.180847%. 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.

29. 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 \$80,000 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, 2016 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 327,553
Claims incurred/recognized in fiscal year 2015	5,832,584
Claims paid in fiscal year 2015	<u>(5,865,936)</u>
Claims liability, end of year	<u>\$ 294,201</u>

30. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

31. 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:

2017	\$ 24,000
2018	36,480
2019	37,209
2020	37,954
2021	38,712
2022	<u>12,989</u>
Total	<u>\$ 187,344</u>

32. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined con-

tribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management's current assessment is that this pronouncement will not have a significant impact on the Plan's financial statements, though the additional note disclosures and required supplementary information will be significant.

The Governmental Accounting Standards Board (GASB) has issued Statement 75, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, replacing Statement No. 43 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 who employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

**TOWN OF FAIRHAVEN, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**(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

See Independent Auditors' Report.

TOWN OF FAIRHAVEN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)

Fairhaven Contributory Retirement System					
<u>Fiscal Year</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, 2016	96.56%	\$18,463,000	\$ 10,200,598	181.00%	72.70%
June 30, 2015	96.46%	\$16,607,000	\$ 10,190,034	162.97%	75.49%

Massachusetts Teachers' Retirement System							
<u>Fiscal Year</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, 2016	0.180847%	-	\$ 37,054,975	\$ 37,054,975	\$ 11,463,689	-	55.38%
June 30, 2015	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
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

Fairhaven Contributory Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 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
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)
(in thousands)

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 1,532	\$ 1,466
Interest on unfunded liability - time value of \$	5,184	4,976
Benefit payments, including refunds of member contributions	<u>(3,810)</u>	<u>(3,841)</u>
Net change in total pension liability	2,906	2,601
Total pension liability - beginning	<u>67,259</u>	<u>64,658</u>
Total pension liability - ending (a)	<u><u>\$ 70,165</u></u>	<u><u>\$ 67,259</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 2,800	\$ 2,651
Contributions - member	1,062	895
Net investment income	304	3,585
Benefit payments, including refunds of member contributions	(3,810)	(3,841)
Administrative expense	(86)	(84)
Other	<u>-</u>	<u>6</u>
Net change in plan fiduciary net position	270	3,212
Plan fiduciary net position - beginning	<u>50,774</u>	<u>47,562</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 51,044</u></u>	<u><u>\$ 50,774</u></u>
Net pension liability (asset) - ending (a-b)	<u><u>\$ 19,121</u></u>	<u><u>\$ 16,485</u></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
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)
(in thousands)

Schedule of Net Pension Liability

	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 70,165	\$ 67,259
Plan fiduciary net position	<u>51,044</u>	<u>50,774</u>
Net pension liability (asset)	<u>\$ 19,121</u>	<u>\$ 16,485</u>
Plan fiduciary net position as a percentage of the total pension liability	72.7%	75.5%
Covered payroll	\$ 10,564	\$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	181.0%	156.0%

Schedule of Contributions

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,755	\$ 2,623
Contributions in relation to the actuarially determined contribution	<u>2,772</u>	<u>2,623</u>
Contribution deficiency (excess)	<u>\$ (17)</u>	<u>\$ -</u>
Covered payroll	\$ 10,564	\$ 10,564
Contributions as a percentage of covered payroll	26.2%	24.8%

Schedule of Investment Returns

Year Ended December 31

	<u>2016</u>	<u>2015</u>
Annual money weighted rate of return, net of investment expense	0.51%	7.61%

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Additional years will be displayed as they become available.*

See Independent Auditors' Report.