

TOWN OF HALIFAX, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF HALIFAX, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS
AND MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Halifax, Massachusetts

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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.

Auditor's 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 auditor's 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 Halifax, Massachusetts, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, during fiscal year 2017, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Town reported a restatement for the change in accounting principle (see Note 16). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii – x and the schedule of changes in net the Town's OPEB liability and related ratios, the schedule of contributions – other postemployment benefits, the schedule of investment returns – other postemployment benefits, the schedule of pension plan contributions and the budgetary comparison information on pages 43-50 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018 on our consideration of the Town of Halifax, Massachusetts' 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 of Halifax, Massachusetts' internal control over financial reporting and compliance.

Lynch Marini & Associates Inc

Norwell, Massachusetts

January 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

As management of the Town of Halifax (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the financial statements with notes, to enhance their understanding of the Town's financial performance.

Financial Highlights:

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13.9 million (net position). Of this amount, there is a deficit of approximately \$18.1 million (unrestricted net position), primarily due to reporting of net other postemployment benefit (OPEB) liability (\$19.0 million) and net pension liability (\$10.1 million).
- The total cost of all Town services for fiscal year 2017 was \$26.2 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$2.6 million or approximately 11.9% of general fund expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. Required supplementary information as mandated by the Governmental Accounting Standards Board (GASB), including schedule of changes in the Town's net OPEB liability and related ratios, schedule of contributions – other postemployment benefits, schedule of investment returns – other postemployment benefits, schedule of pension plan contributions, budgetary comparison schedule- general fund and solid waste fund and notes to the budgetary comparison schedule are presented following the financial statements and related notes to provide additional analysis.

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

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

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

The government-wide financial statements distinguish functions of the Town 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 of the Town include general government, public safety, education, public works, health and human services, culture and recreation, and general administrative services. The Town's business-type activities include the water activities.

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

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

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Solid Waste Fund, and the Road Repair Fund (Chapter 90 Highway) all of which are considered to be major funds. The remaining funds are combined into an aggregate other governmental funds column in this presentation. Individual fund data for each of these non-major governmental funds is available from the Town Accountant's office.

The basic governmental fund financial statements can be found in the accompanying pages of this report.

Proprietary funds: The Town of Halifax maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses a proprietary fund to account for its water activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations. The basic proprietary fund financial statements can be found in the accompanying pages of this report.

Fiduciary funds: *Fiduciary funds* are used to report resources held in a trustee or agency capacity for others and therefore not available to support Town programs. The reporting focus is on net position and the change in net position. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements. The Town's fiduciary activities consist primarily of amounts maintained in a trust fund for funding future insurance costs related to retirees, referred to as the Other Postemployment Benefits (OPEB) trust fund and various scholarship and welfare private purpose trust funds. Additional amounts held as agency funds relate primarily to bond deposits, payroll withholdings and student activity accounts being maintained on behalf of student groups.

The basic fiduciary fund financial statements can be found in the accompanying pages of this report.

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

The Agency fund is used to hold funds on the behalf of parties other than the Town including federal and state agencies. Agency funds are custodial in nature and do not involve measurement of results of operations.

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

Required supplementary information: Government Accounting Standards require the presentation of the schedule of changes in the Town's net OPEB liability and related ratios, schedule of contributions – other postemployment benefits, schedule of investment returns – other postemployment benefits, schedule of pension plan contributions, as well as certain budgetary comparison schedules and related notes following the Town's basic financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Halifax, assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$13.9 million (\$4.6 and \$9.3 million for the governmental and business-type activities, respectively), at the close of the most recent fiscal year. The Town implemented reporting requirements associated with GASB Statements #74 and #75, related to OPEB obligations, which resulted in restatement of beginning net position of \$9.6 million and \$133,000 in the Governmental Activities and Business-type Activities, respectively. See additional information in the notes to the financial statements. Accordingly, prior year balances in the following table have been restated. The following tables demonstrate the net position of the Town:

| | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
|---|----------------------|----------------------|----------------------|----------------------|
| | Governmental | Governmental | Business-type | Business-type |
| | Activities | Activities | Activities | Activities |
| Current assets | \$ 10,203,685 | \$ 9,494,733 | \$ 2,033,556 | \$ 1,949,901 |
| Capital assets | 21,830,228 | 22,241,834 | 8,987,361 | 9,187,890 |
| Total assets | <u>32,033,913</u> | <u>31,736,567</u> | <u>11,020,917</u> | <u>11,137,791</u> |
| Deferred outflows of resources | <u>3,672,785</u> | <u>1,146,479</u> | <u>130,268</u> | <u>73,179</u> |
| Total assets and deferred outflows of resources | <u>\$ 35,706,698</u> | <u>\$ 32,883,046</u> | <u>\$ 11,151,185</u> | <u>\$ 11,210,970</u> |
| Current liabilities | \$ 772,825 | \$ 1,067,895 | \$ 741,940 | \$ 1,056,714 |
| Long-term liabilities | 29,845,587 | 27,099,967 | 1,109,751 | 1,111,327 |
| Total liabilities | <u>30,618,412</u> | <u>28,167,862</u> | <u>1,851,691</u> | <u>2,168,041</u> |
| Deferred inflows of resources | 476,744 | 66,167 | 25,184 | 4,223 |
| Net position: | | | | |
| Net investment in capital assets | 21,290,228 | 21,611,834 | 8,207,361 | 8,262,890 |
| Restricted | 2,507,416 | 2,566,959 | | |
| Unrestricted | <u>(19,186,102)</u> | <u>(19,529,776)</u> | <u>1,066,949</u> | <u>775,816</u> |
| Total net position | <u>4,611,542</u> | <u>4,649,017</u> | <u>9,274,310</u> | <u>9,038,706</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 35,706,698</u> | <u>\$ 32,883,046</u> | <u>\$ 11,151,185</u> | <u>\$ 11,210,970</u> |

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

Included within the governmental activities current assets are \$5.6 million in cash, \$1.3 million in investments and \$3.3 million in receivables.

Current liabilities for governmental activities of approximately \$773,000 consist primarily of \$627,000 of accounts payable and salaries payable, \$7,000 of accrued interest expense, \$3,000 for provisions for refund of paid taxes, \$6,000 of other liabilities and \$130,000 of current portion of long term obligations because they are due in fiscal year 2018.

Governmental activities noncurrent liabilities include approximately \$561,000, net in general obligation bonds (approximately \$110,000 is classified as current because it is due within the next fiscal year). In addition, other noncurrent liabilities include \$360,000, net (\$20,000 current) for landfill closure and monitoring, approximately \$850,000 for compensated absences, approximately \$9.5 million for net pension liability and approximately \$18.6 million for net other postemployment benefits (OPEB) liability.

Current liabilities of the business-type activities include a \$630,000 note payable for the water tower rehab and \$75,000 of current portion of long term obligation, due in fiscal year 2018. Business-type activities noncurrent liabilities include \$75,000, net in bonds payable (\$75,000 is classified as current because it is due during the next fiscal year), approximately \$9,700 liability for compensated absences, approximately \$609,000 for net pension liability and approximately \$416,000 for net other postemployment benefits (OPEB) liability.

The largest portion of the Town's combined net position reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding, of \$29.5 million. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, 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 the Town's combined net position of approximately \$2.5 million represents resources that are subject to restrictions placed on how they may be used. The remaining balance of unrestricted net position, is in a deficit of approximately \$18.1 million.

At the end of the current fiscal year, the Town reported a deficit balance of approximately \$19.2 million in the unrestricted governmental activities net position, and a balance of approximately \$1.1 million in the unrestricted business-type activities net position. Deficit unrestricted net position of the governmental activities is a direct result of net other postemployment benefits liability and net pension liability of \$18.6 million and \$9.5 million, respectively.

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

Governmental activities decreased the Town's net position by approximately \$37,000 during fiscal year 2017. Business-type activities increased net position by \$236,000. A summary of revenues and major functional expenditures is presented below.

| | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
|-------------------------------------|---------------------|---------------------|----------------------|----------------------|
| | Governmental | Governmental | Business-type | Business-type |
| | Activities | Activities | Activities | Activities |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for service | \$ 1,390,459 | \$ 969,463 | \$ 1,179,187 | \$ 1,024,803 |
| Operating grants and contribution: | 4,967,066 | 4,901,610 | | |
| Capital grants and contributions | 858,215 | 520,695 | | |
| Total program revenues | <u>7,215,740</u> | <u>6,391,768</u> | 1,179,187 | 1,024,803 |
| General revenues and other: | | | | |
| Property taxes levied | 15,510,141 | 15,145,715 | | |
| Excise taxes | 1,288,026 | 1,149,641 | | |
| Penalties and interest on taxes | 223,151 | 192,540 | 500 | 100 |
| Grants and contributions not restri | 980,297 | 1,179,794 | | |
| Investment income | 5,134 | 15,446 | 2,053 | 1,726 |
| Gain (loss) on sale of asset | (2,869) | (14,982) | | |
| Transfers | | (363,435) | | 363,435 |
| Total general revenues | <u>18,003,880</u> | <u>17,304,719</u> | 2,553 | 365,261 |
| Total revenues | 25,219,620 | 23,696,487 | 1,181,740 | 1,390,064 |
| Expenses: | | | | |
| General government | 1,507,930 | 1,585,089 | | |
| Public safety | 3,006,888 | 3,410,627 | | |
| Education | 14,191,866 | 12,893,631 | | |
| Public works | 2,116,565 | 2,060,657 | 946,136 | 1,005,001 |
| Health and human services | 572,610 | 677,016 | | |
| Culture and recreation | 488,671 | 631,529 | | |
| Employee benefits and other | 3,219,141 | 3,052,856 | | |
| Interest on long term debt | 22,703 | 31,933 | | |
| State and county charges | 130,721 | 129,375 | | |
| Total expenses | 25,257,095 | 24,472,713 | 946,136 | 1,005,001 |
| Change in net position | \$ (37,475) | \$ (776,226) | \$ 235,604 | \$ 385,063 |

Key elements of the changes in net position are as follows:

Revenues:

- ◆ Property taxes represent approximately 61% of the Town's governmental activity revenue. Property tax growth represents a combination of an annual increase, allowed in the levy under Proposition 2 ½, and new growth.
- ◆ Operating grants and contributions make up the second largest revenue representing approximately 19% of the Town's governmental activity revenue. Included in this amount are intergovernmental revenues from the Commonwealth of Massachusetts and the federal government classified as program revenues.

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

Expenses:

- ◆ Employee wages increased nominally, resulting from negotiated step and general wage increases.
- ◆ Public safety expenses decreased by roughly \$403,000 primarily due to the decrease in the Fire Chief's Association Grant expenditures of approximately \$530,000.
- ◆ Education expenditures increased by approximately \$1.3 million primarily due to roughly a \$300,000 increase in special needs transportation and an approximate \$692,000 increase in regional school district assessments.
- ◆ Business-type activity expenses decreased approximately \$119,000 due to greater water tower maintenance expenses in the prior year.

Financial Analysis of the Government's Funds

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

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. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of approximately \$6.6 million, an increase of approximately \$1.1 million from the prior year. The governmental funds' combined ending fund balances were reported in the following classifications (approximate figures): restricted fund balance of \$1.8 million, committed fund balance of \$2.0 million, assigned fund balance of \$114,000 and unassigned fund balance of \$2.7 million.

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of approximately \$4.9 million, an increase of about \$1.1 million from the previous year. Committed fund balance of roughly \$2.0 million and assigned fund balance of approximately \$113,000 represent 42% and 2% of total general fund balance respectively. Unassigned fund balance of about \$2.7 million represents 56% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. General fund unassigned fund balance represents approximately 13% of total general fund expenditures, while total general fund balance represents 23% of the same amounts.

TOWN OF HALIFAX, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

General Fund Budgetary Highlights

The Town adopts an annual budget for its general fund, solid waste fund, and water fund. A budgetary comparison statement has been provided for the general fund and solid waste fund to demonstrate compliance with the budget.

The difference between the original general fund expenditure budget of \$22,665,507 and the final amended expenditure budget of \$21,425,754 can be briefly summarized as follows:

- ◆ Encumbrances and continuing appropriations (warrant articles) of \$1,292,330 were reduced from the original budget into future periods, and other transfers and legislative adjustments were recorded during the year.
- ◆ Special Town Meeting free cash appropriation of \$16,504, transfers in from special revenue funds of \$41,073 and a line item transfer out to other governmental funds of \$5,000.

Capital Asset and Debt Administration

The Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Capital assets - The Town's investment in capital assets for governmental activities as of June 30, 2017 amounts to roughly \$21.8 million, which is net of accumulated depreciation of roughly 28.6 million. The Town's investment in capital assets for business-type activities as of June 30, 2017, amounts to roughly \$9.0 million, which is net of accumulated depreciation of about \$5.7 million. Capital asset investment includes land; buildings; improvements; equipment, machinery and vehicles; and infrastructure. The table below represents a summary of the Town's capital assets, net of accumulated depreciation by category (in thousands):

| <u>Capital Assets</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|------------------------------------|--------------------------------|------------------|---------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Land | \$ 3,684 | \$ 3,684 | \$ 626 | \$ 626 |
| Construction in progress | | 244 | | |
| Buildings and related improvements | 3,433 | 3,747 | 12 | 13 |
| Improvements other than buildings | 582 | 649 | | |
| Equipment, machinery & vehicles | 1,792 | 1,164 | 62 | 74 |
| Infrastructure | 12,339 | 12,754 | 8,287 | 8,475 |
| | <u>\$ 21,830</u> | <u>\$ 22,242</u> | <u>\$ 8,987</u> | <u>\$ 9,188</u> |

The Town's major changes to governmental activities capital assets during 2017 consisted of purchases of equipment and vehicles approximating \$878,000 for public safety purposes and roughly \$323,000 in infrastructure for public works. There were no major additions to capital assets for business-type activities.

Long-term debt - At the end of the current fiscal year, the Town had total bonded debt outstanding of \$671,400 and \$150,000 for the governmental and business-type activities, respectively. At the end of the prior fiscal year, the Town had total bonded debt outstanding of \$781,800 million and \$225,000 for the governmental and business-type activities, respectively. All debt is a general obligation of the Town. The Town maintains an Aa3 rating from Moody's Investor Service as of August 31, 2017.

TOWN OF HALIFAX, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2017

Economic Factors and Next Year's Budgets and Rates

The Town's fiscal year 2018 tax levy increased 0.5% over the fiscal year 2017 tax levy.

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:

Town of Halifax
Attn: Town Accountant
499 Plymouth Street.
Halifax, MA 02338-1338.

BASIC FINANCIAL STATEMENTS

TOWN OF HALIFAX, MASSACHUSETTS

Statement of Net Position

June 30, 2017

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------|
| | Governmental Activities | Business-type Activities | Total |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 5,564,976 | \$ 1,712,388 | \$ 7,277,364 |
| Investments | 1,367,706 | | 1,367,706 |
| Receivables, net of allowance for uncollectibles | 3,271,003 | 321,168 | 3,592,171 |
| Capital assets, net of accumulated depreciation | 21,830,228 | 8,987,361 | 30,817,589 |
| Total assets | 32,033,913 | 11,020,917 | 43,054,830 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Associated with net OPEB liability | 2,507,951 | 56,151 | 2,564,102 |
| Associated with net pension liability | 1,164,834 | 74,117 | 1,238,951 |
| Total deferred outflows of resources | 3,672,785 | 130,268 | 3,803,053 |
| Total assets and deferred outflows of resources | \$ 35,706,698 | \$ 11,151,185 | \$ 46,857,883 |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 529,322 | \$ 28,976 | \$ 558,298 |
| Salaries payable | 97,426 | 5,278 | 102,704 |
| Accrued interest payable | 7,215 | 2,686 | 9,901 |
| Provision for refund of paid taxes | 2,787 | | 2,787 |
| Other liabilities | 5,675 | | 5,675 |
| Notes payable | | 630,000 | 630,000 |
| Noncurrent liabilities: | | | |
| Due within one year | 130,400 | 75,000 | 205,400 |
| Due in more than one year | 29,845,587 | 1,109,751 | 30,955,338 |
| Total liabilities | 30,618,412 | 1,851,691 | 32,470,103 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Associated with net OPEB liability | 311 | 1 | 312 |
| Associated with net Pension liability | 476,433 | 25,183 | 501,616 |
| Total deferred inflows of resources | 476,744 | 25,184 | 501,928 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 21,290,228 | 8,207,361 | 29,497,589 |
| Restricted | 2,507,416 | | 2,507,416 |
| Unrestricted | (19,186,102) | 1,066,949 | (18,119,153) |
| Total net position | 4,611,542 | 9,274,310 | 13,885,852 |
| Total liabilities, deferred inflows of resources and net position | \$ 35,706,698 | \$ 11,151,185 | \$ 46,857,883 |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Activities
For the Year Ended June 30, 2017

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> | | |
|--|-----------------|-----------------------------|---|---|--|---------------------------------|----------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government</u> | | <u>Total</u> |
| | | | | | <u>Governmental Activities</u> | <u>Business-type Activities</u> | |
| Primary government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,507,930 | \$ 119,203 | \$ 142,959 | \$ 15,000 | \$ (1,230,768) | \$ | \$ (1,230,768) |
| Public safety | 3,006,888 | 765,022 | 55,141 | 524,421 | (1,662,304) | | (1,662,304) |
| Education | 14,191,866 | 76,223 | 4,523,997 | | (9,591,646) | | (9,591,646) |
| Public works | 2,116,565 | 375,792 | 64,609 | 268,794 | (1,407,370) | | (1,407,370) |
| Health and human services | 572,610 | 3,058 | 143,699 | 50,000 | (375,853) | | (375,853) |
| Culture and recreation | 488,671 | 51,161 | 36,661 | | (400,849) | | (400,849) |
| Employee benefits and other | 3,219,141 | | | | (3,219,141) | | (3,219,141) |
| Interest on long-term debt | 22,703 | | | | (22,703) | | (22,703) |
| State and county charges | 130,721 | | | | (130,721) | | (130,721) |
| Total governmental activities | 25,257,095 | 1,390,459 | 4,967,066 | 858,215 | (18,041,355) | | (18,041,355) |
| Business-type activities: | | | | | | | |
| Water | 946,136 | 1,179,687 | | | | 233,551 | 233,551 |
| Total business-type activities | 946,136 | 1,179,687 | | | | 233,551 | 233,551 |
| Total primary government | \$ 26,203,231 | \$ 2,570,146 | \$ 4,967,066 | \$ 858,215 | (18,041,355) | 233,551 | (17,807,804) |
| General revenues | | | | | | | |
| Property taxes, net of allowances for uncollectibles | | | | | 15,510,141 | | 15,510,141 |
| Excise taxes, net of allowance for uncollectibles | | | | | 1,288,026 | | 1,288,026 |
| Penalties and interest on taxes | | | | | 223,151 | | 223,151 |
| Grants and contributions not restricted to specific programs | | | | | 980,297 | | 980,297 |
| Investment income | | | | | 5,134 | 2,053 | 7,187 |
| Loss on disposal of capital assets | | | | | (2,869) | | (2,869) |
| Total general revenues and other | | | | | 18,003,880 | 2,053 | 18,005,933 |
| Change in net position | | | | | (37,475) | 235,604 | 198,129 |
| Net position - beginning of year, restated | | | | | 4,649,017 | 9,038,706 | 13,687,723 |
| Net position - end of year | | | | | \$ 4,611,542 | \$ 9,274,310 | \$ 13,885,852 |

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

TOWN OF HALIFAX, MASSACHUSETTS
Balance Sheet – Governmental Funds
June 30, 2017

| | General Fund | Solid Waste Fund | Road Repair Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|-----------------------------|-----------------------------|---|---|
| <u>ASSETS</u> | | | | | |
| Cash, cash equivalents | \$ 3,789,210 | \$ 385,456 | \$ | \$ 1,390,310 | \$ 5,564,976 |
| Investments | 1,367,706 | | | | 1,367,706 |
| Receivables | 3,182,870 | 73,626 | 606,143 | 33,338 | 3,895,977 |
| Total assets | \$ 8,339,786 | \$ 459,082 | \$ 606,143 | \$ 1,423,648 | \$ 10,828,659 |
| <u>LIABILITIES</u> | | | | | |
| Accounts payable | \$ 491,864 | \$ 18,211 | \$ | \$ 19,247 | \$ 529,322 |
| Salaries payable | 94,443 | 1,355 | | 1,628 | 97,426 |
| Provision for refund of paid taxes | 2,787 | | | | 2,787 |
| Other liabilities | 5,675 | | | | 5,675 |
| Total liabilities | 594,769 | 19,566 | | 20,875 | 635,210 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | |
| Deferred revenue | 3,040,102 | 73,626 | 606,143 | 33,338 | 3,753,209 |
| Total deferred inflows of resources | 3,040,102 | 73,626 | 606,143 | 33,338 | 3,753,209 |
| <u>FUND BALANCES</u> | | | | | |
| Restricted | 2,319 | 365,890 | | 1,428,420 | 1,796,629 |
| Committed | 2,038,137 | | | | 2,038,137 |
| Assigned | 113,581 | | | | 113,581 |
| Unassigned | 2,550,878 | | | (58,985) | 2,491,893 |
| Total fund balances | 4,704,915 | 365,890 | | 1,369,435 | 6,440,240 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 8,339,786 | \$ 459,082 | \$ 606,143 | \$ 1,423,648 | \$ 10,828,659 |

Amounts reported for governmental activities in the statement of net position are different because

| | |
|--|--------------|
| Total fund balances of governmental funds | \$ 6,440,240 |
| Capital assets used in governmental activities are not financial resources and are not reported in funds. | 21,830,228 |
| Accounts receivable are not available to pay for current-period expenditures and are deferred in funds. | 3,753,209 |
| Reporting of assets on a full accrual basis requires an estimate for uncollectible accounts. | (624,974) |
| Long-term liabilities are not due and payable in the current period and are not included in funds. | (29,975,987) |
| Deferred outflows of resources not recognized on the modified accrual basis | 3,672,785 |
| Deferred inflows of resources, not recognized on the modified accrual basis | (476,744) |
| Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued. | (7,215) |
| Net position of governmental activities | \$ 4,611,542 |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Governmental Funds
June 30, 2017

| | <u>General Fund</u> | <u>Solid Waste Fund</u> | <u>Road Repair Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-----------------------------|-----------------------------|---|---|
| Revenues | | | | | |
| Property taxes | \$ 15,559,615 | \$ | \$ | \$ | \$ 15,559,615 |
| Excise taxes | 1,249,611 | | | | 1,249,611 |
| Licenses and permits | 149,855 | | | 76,081 | 225,936 |
| Penalties and interest | 223,151 | | | 9,082 | 232,233 |
| Investment income | 5,586 | 374 | | 911 | 6,871 |
| Charges for services | 433,202 | 340,071 | | 95,031 | 868,304 |
| Contributions | | | | 92,942 | 92,942 |
| Departmental and other | 116,285 | | | 63,655 | 179,940 |
| Intergovernmental | 4,596,772 | | 323,302 | 1,247,343 | 6,167,417 |
| Total revenues | <u>22,334,077</u> | <u>340,445</u> | <u>323,302</u> | <u>1,585,045</u> | <u>24,582,869</u> |
| Expenditures | | | | | |
| General government | 1,422,809 | | | 96,239 | 1,519,048 |
| Public safety | 2,802,702 | | | 618,447 | 3,421,149 |
| Education | 12,994,934 | | | 530,397 | 13,525,331 |
| Public works | 773,803 | 324,230 | 323,302 | 116,821 | 1,538,156 |
| Human services | 472,270 | | | 101,069 | 573,339 |
| Culture and recreation | 380,757 | | | 96,217 | 476,974 |
| Employee benefits and other | 2,373,091 | | | | 2,373,091 |
| State and county assessments | 130,721 | | | | 130,721 |
| Debt service | 114,188 | | | 20,500 | 134,688 |
| Total expenditures | <u>21,465,275</u> | <u>324,230</u> | <u>323,302</u> | <u>1,579,690</u> | <u>23,692,497</u> |
| Revenues over (under) expenditures | 868,802 | 16,215 | | 5,355 | 890,372 |
| Other financing sources (uses) | | | | | |
| Transfers in | 53,702 | 7,517 | | 6,454 | 67,673 |
| Transfers out | (6,454) | (6,916) | | (54,303) | (67,673) |
| Total other financing sources and (uses) | <u>47,248</u> | <u>601</u> | | <u>(47,849)</u> | |
| Revenues and other financing sources over (under) expenditures and other financing uses | 916,050 | 16,816 | | (42,494) | 890,372 |
| Fund balance, beginning of year | <u>3,788,865</u> | <u>349,074</u> | | <u>1,411,929</u> | <u>5,549,868</u> |
| Fund balance, end of year | <u>\$ 4,704,915</u> | <u>\$ 365,890</u> | <u>\$</u> | <u>\$ 1,369,435</u> | <u>\$ 6,440,240</u> |

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

TOWN OF HALIFAX, MASSACHUSETTS
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

| | |
|---|--------------------|
| Revenues and other financing sources over (under) expenditures and other financing uses - governmental funds | \$ 890,372 |
| Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities. | |
| Capital outlays during the fiscal year | 1,068,973 |
| Depreciation recorded for the fiscal year | (1,442,995) |
| Net disposal of capital assets | (37,584) |
| Certain deferred outflows of resources are reported on the government-wide financial statements to be amortized over future periods, and accordingly are not recognized in the fund basis financial statements | |
| Net change in deferred outflows related to net pension liability | 18,355 |
| Net change in deferred outflows related to net OPEB liability | 2,507,951 |
| Certain deferred inflows of resources are reported on the government-wide financial statements to be amortized over future periods, and accordingly are not recognized in the fund basis financial statements | |
| Net change in deferred inflows related to net pension liability | (410,266) |
| Net change in deferred inflows related to net OPEB liability | (311) |
| Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements. | |
| Net change in deferred revenue | 327,906 |
| Net change in allowance for doubtful accounts | (265,374) |
| The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net position in the government-wide financial statements. | |
| Principal payments on long-term debt | 110,400 |
| The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred. | |
| Net change in accrued interest expense | 1,585 |
| Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows: | |
| Net OPEB liability | (3,202,683) |
| Net pension liability | 240,904 |
| Landfill postclosure monitoring | 20,000 |
| Compensated absences | 85,759 |
| Other liabilities | 49,533 |
| Change in net position of governmental activities | <u>\$ (37,475)</u> |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Proprietary Net Position – Proprietary Funds
June 30, 2017

| | Business-type Activities Water Fund |
|---|--|
| | |
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 1,712,388 |
| Receivables, net of allowance for uncollectibles | 321,168 |
| Capital assets, net of accumulated depreciation | 8,987,361 |
| Total assets | 11,020,917 |
| <u>DEFERRED OUTFLOWS</u> | |
| OPEB related | 56,151 |
| Pension related | 74,117 |
| Total deferred outflows of resources | 130,268 |
| | |
| Total assets and deferred outflows of resources | \$ 11,151,185 |
| <u>LIABILITIES</u> | |
| Accounts payable | \$ 28,976 |
| Salaries payable | 5,278 |
| Accrued interest payable | 2,686 |
| Notes payable | 630,000 |
| Noncurrent liabilities: | |
| Due within one year | 75,000 |
| Due in more than one year | 1,109,751 |
| Total liabilities | 1,851,691 |
| <u>DEFERRED INFLOWS</u> | |
| OPEB related | 1 |
| Pension related | 25,183 |
| Total deferred inflows of resources | 25,184 |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 8,207,361 |
| Unrestricted | 1,066,949 |
| Total net position | 9,274,310 |
| | |
| Total liabilities, deferred inflows of resources and net position | \$ 11,151,185 |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Revenues, Expenses and Changes in Fund Net Position –
Proprietary Funds
June 30, 2017

| | Business-type Activities Water Fund |
|---|--|
| Operating revenues | |
| Charges for service | \$ 1,083,554 |
| Penalties and interest | 500 |
| Total operating revenues | 1,084,054 |
| Operating expenses | |
| Salaries, wages and employee benefits | 377,762 |
| Operating expenses | 356,534 |
| Depreciation and amortization | 200,529 |
| Total operating expenses | 934,825 |
| Operating income | 149,229 |
| Non operating revenues (expenses) | |
| Investment income | 2,053 |
| Other income - water tower lease | 95,633 |
| Interest expense | (11,311) |
| Total non operating revenue (expenses), net | 86,375 |
| Change in net position | 235,604 |
| Net position at beginning of year, restated | 9,038,706 |
| Net position at end of year | \$ 9,274,310 |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2017

| | Business-type Activities Water Fund |
|---|--|
| Cash flows from operating activities | |
| Receipts from customers and users | \$ 1,032,545 |
| Payments to vendors | (598,160) |
| Payments to employees, including fringe benefits | <u>(339,300)</u> |
| Net cash provided by operating activities | 95,085 |
| Cash flows from capital and related financing activities | |
| Principal payments on bonds | (75,000) |
| Proceeds from issuance of temporary notes | 630,000 |
| Payments on temporary notes | (700,000) |
| Receipts from water tower lease | 95,633 |
| Interest expense | <u>(15,625)</u> |
| Net cash used for capital and related financing activities | (64,992) |
| Cash flows from investing activities | |
| Investment income | <u>2,053</u> |
| Net cash provided by investing activities | <u>2,053</u> |
| Net change in cash and cash equivalents | 32,146 |
| Cash and cash equivalents at beginning of year | <u>1,680,242</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 1,712,388</u></u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | |
| Operating income | \$ 149,229 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 200,529 |
| Changes in assets, deferred outflows, liabilities and deferred inflows: | |
| User fees receivable, net of allowance for collectit | (51,509) |
| Deferred outflows - pension related | (57,089) |
| Accounts payable | (241,626) |
| Salaries payable | 1,166 |
| Accrued compensated absences | 409 |
| Net pension liability | (12,307) |
| Net OPEB liability | 85,322 |
| Deferred inflows - pension related | <u>20,961</u> |
| Total adjustments | <u>(54,144)</u> |
| Net cash provided by operating activities | <u><u>\$ 95,085</u></u> |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Fiduciary Net Position – Fiduciary Funds
For the Year Ended June 30, 2017

| | Other Post- Employment Benefits Trust Fund | Private Purpose Trust Funds | Agency Amounts |
|--|---|--|---------------------------|
| <u>ASSETS</u> | | | |
| Cash, cash equivalents, and investments | \$ | \$ 7,106 | \$ 378,739 |
| Investments | 229,842 | | |
| Total assets | <u>\$ 229,842</u> | <u>\$ 7,106</u> | <u>\$ 378,739</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable and other current liabilities | \$ | \$ | \$ 5,292 |
| Amounts held in escrow | | | 373,447 |
| Total liabilities | | | <u>\$ 378,739</u> |
| <u>NET POSITION</u> | | | |
| Amounts held in trust | <u>229,842</u> | <u>7,106</u> | |
| Total liabilities and net position | <u>\$ 229,842</u> | <u>\$ 7,106</u> | |

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

TOWN OF HALIFAX, MASSACHUSETTS
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
June 30, 2017

| | Other Post- Employment Benefits Trust Fund | Private Purpose Trust Funds |
|-----------------------------------|---|--|
| Additions | | |
| Employer contributions | \$ 423,896 | \$ |
| Investment income | 15,408 | 53 |
| Total additions | 439,304 | 53 |
| Deductions | | |
| Benefit payments | 388,896 | |
| Change in net position | 50,408 | 53 |
| Net position at beginning of year | 179,434 | 7,053 |
| Net position at end of year | \$ 229,842 | \$ 7,106 |

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

Note 1. Organization and Reporting Entity

A. Organization

The Town of Halifax, Massachusetts (the Town), was incorporated in 1734. The Town is a political subdivision of the Commonwealth of Massachusetts, located in Plymouth County. The Town operates under an open Town Meeting form of government and an elected three-member Board of Selectmen. The Town's major operations include education, police and fire protection, parks, library and recreation, public works and general administrative services. In addition, the Town owns and operates a water system, and a recycling facility.

B. Reporting Entity

General

The accompanying financial statements present the Town of Halifax (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Town of Halifax did not identify any component units requiring inclusion in the accompanying financial statements.

Joint Ventures

The Town has entered into joint ventures with other municipalities and government sponsored entities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The Town also belongs to cost sharing groups established pursuant to Massachusetts General Laws for pension and health insurance benefits. See accompanying notes for additional information.

The following is a list of the Town's joint ventures, their purpose, and the annual assessment or fees paid for services rendered during fiscal year 2017. Financial information may be obtained from each joint venture by contacting them directly.

| <u>Joint venture and address</u> | <u>Purpose</u> | <u>FY2017 Payments</u> |
|---|---|-----------------------------------|
| Silver Lake Regional School District 130 Pembroke Street, Kingston, MA | To provide secondary education and SPED services | \$ 5,550,768 |
| Pilgrim Area Collaborative 120 Center Street, Pembroke, MA | To provide SPED services | \$ 437,035 |
| North River Collaborative 198 Spring Street, Rockland, MA | To provide SPED services | \$ 256,392 |
| Reads Collaborative E. Grove Street, Middleborough, MA | To provide SPED services | \$ 214,919 |
| South Shore Educational Collaborative 75 Abington Street, Hingham, MA | To provide SPED services | \$ 166,120 |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

The Silver Lake Regional School District (the District) is established by the Regional Agreement, as amended, entered into by the member towns of Halifax, Kingston, and Plympton and is governed by a nine (9) member school committee including of three (3) elected representatives of the Town of Halifax. The Town is indirectly liable for debt and other expenditures of the District pursuant to the Agreement and is assessed annually for its share of operating and capital costs. The Town's share of capital costs was \$511,156 or 34.4% of the District's total capital costs. The Town has no other equity interests in the other joint ventures.

Related Organizations

The Halifax Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth are legally responsible for the overall operation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town is discussed below.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's education, police and fire protection, parks, library and recreation, public works, schools, and general administrative services are classified as governmental activities. The Town's water operations are classified as a business-type activities.

Government-wide Statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue.

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

Certain costs, such as health, property and liability insurance, among others are not allocated among the Town's functions and are included in employee benefits and other expense in the Statement of Activities. Separate line items for other major costs include state assessments and employee benefits and other, which primarily consist of pension benefit expenses and health insurance expenses related to active and retired employees.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The non-major funds are combined in a column in the fund financial statements titled Other Governmental Funds.

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds which may be used by the Town:

Major Funds:

- General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- Solid waste fund is used to account for activity related to the Town's residential curbside pick-up and recycling programs.
- Road repair fund is used to account for activity related to roadway projects reimbursed by the Commonwealth in accordance with Massachusetts General Law Chapter 90, Section 34.

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

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Debt service funds are used to account for and report resources that are restricted, committed, or assigned to the expenditure for principal and interest and the accumulation of funds for the periodic payment of principal and interest on general long-term debt also for financial resources that are being accumulated for principal and interest maturing in future years. Currently, the Town does not utilize a debt service fund.
- Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by business-type/proprietary funds). It excludes those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The Town accounts for certain capital asset acquisitions (capital outlay) through the general fund's budgetary process, as well as through certain special revenues funds. Currently, the Town has determined that capital projects funds are to account for and report capital assets to be financed through the issuance of long-term debt.
- Permanent funds are used to account for and report financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs. Although debt related to the water fund is not secured solely with water fund net revenues, the Town has decided to report it as an enterprise fund.

Fiduciary Funds:

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose, other and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to propriety funds. The following is a description of the fiduciary funds:

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements.
- Other Post-Employment Benefit trust fund accounts for resources legally held in trust for the providing health insurance benefits to retired employees of the Town and are not subject to creditors of the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements. This fund was established pursuant to the provisions of MGL Chapter 32B, section 20 which allows for establishment of a trust fund for other post-employment benefits.
- Agency funds are used to hold funds on behalf of parties other than the Town, federal and state agencies and public school student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are 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.

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurement and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and property tax revenues are considered available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

C. Fair Value Measurement

The Town measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk. The following are levels considered.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

D. Cash, Cash Equivalents and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form consolidated cash. For the purpose of the financial statements cash and cash equivalents include all demand and savings accounts and certificates of deposit. The Town maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reflected on the financial statements as "cash and cash equivalents". Massachusetts General Laws and local provisions 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.

Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool. For financial reporting purposes, the Town has classified certificates of deposit as investments.

Additional cash and investment note disclosures are presented in these Notes.

E. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

F. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Revenues related to receivables are reported in the government-wide financial statements and fund financial statements under the accrual basis of accounting and modified accrual basis of accounting respectively. The following are the significant receivables associated with the Town.

Property taxes, deferred property taxes and tax liens: By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% cash value. Taxes are due and payable on July 1st. The Town has accepted the semi-annual tax payment system, under which the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. After the Town sets the tax rate, usually prior to December 31st, the assessors make the actual tax commitment. The Town has an ultimate right to foreclose on property for which taxes have not been paid. The allowance for uncollectible amounts is based upon historical trends and specific account analysis.

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Excise taxes: Excise taxes consist of motor vehicle excise taxes which are assessed annually for each vehicle registered in the Town. The Commonwealth of Massachusetts is responsible for reporting the number of vehicles registered in the Town, and the associated fair value upon which the tax is calculated. The allowance for uncollectible amounts is based upon historical trends and specific account analysis.

User charges: User charges and fees consist of water and solid waste and are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by their respective due date. Water and solid waste liens are processed each year and are included as a lien on the property owner's tax bill. The allowance for uncollectible amounts is based on historical trends and specific account analysis.

Departmental: Departmental revenues consist primarily of ambulance billings. The allowance for ambulance bills are based upon historical trends and periodic aging reports. Other departmental receivables are considered fully collectible.

Special assessments: Special assessments in the governmental funds consist of septic repair betterments. These receivables are considered to be fully collectible.

Intergovernmental: Intergovernmental receivables represent amounts due from various federal and state agencies for operating and capital purposes. These receivables are considered to be fully collectible.

G. Inventories

Inventories are not material in total to the government-wide and fund financial statements and accordingly are reported as expenditures at the time of purchase.

H. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their acquisition value (entry price) at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|--------------------------------|--------------|
| Buildings | 40 years |
| Building and land improvements | 20 years |
| Machinery and Equipment | 5 – 10 years |
| Infrastructure | 50 years |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

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Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

I. Deferred Outflows and Deferred Inflows

Deferred outflows of resources, as applicable, represent a consumption of assets by the government that is applicable to a future reporting period. These *deferred outflows of resources* have a positive effect on net position. Deferred inflows of resources, as applicable, represent the acquisition of assets by the government that is applicable to a future reporting period. These *deferred inflows of resources* have a negative effect on net position. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

J. Liabilities

Liabilities represent present obligations to sacrifice resources for which the government has *little or no discretion to avoid*. The primary focus is on the obligation for the government to perform. The accounting treatment for these obligations depends on whether they are reported in the government-wide or fund financial statements. Current liabilities are reported in both the fund and government-wide financial statements. Current liabilities represent obligations incurred in the operating cycle for acquisition goods, services, accruals for salaries and wages, and other obligations due or generally expected to be liquidated within one year from the balance sheet date. Government-wide financial statements also report other current liabilities such as accrued interest, which is reported on a full accrual basis.

Generally, all noncurrent (long term) liabilities are not reported as liabilities in the fund financial statements, but are reported in the government-wide statements. Such obligations consist primarily of bonds payable, capital leases, compensated absences, net pension liabilities and net other postemployment liabilities.

K. Compensated Absences

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

L. Pension

For purposes of measuring 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 Plymouth County Retirement Association (PCRA) and additions to/deductions from PCRA's fiduciary net position have been determined on the same basis as they are reported by PCRA. 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.

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Notes to Financial Statements

June 30, 2017

M. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's OPEB Benefit Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognized benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investments contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

N. Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. These assets may be restricted by constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position—Represents the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The Town does not maintain any minimum fund balance policies. The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.

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June 30, 2017

- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting (the highest level of authority) and requires such action to remove the constraint.
- Assigned fund balance – consist of amounts that are constrained by the Town’s intent to be used for a specific purpose. Intent is expressed by either the governing body, or the officials directly responsible for departmental appropriations.
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

P. Total Columns

The total column presented on the government-wide financial statements represents consolidated financial information. The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

Note 3. Stewardship, Compliance and Accountability

A. Property Tax Calendar and Limitations

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide property tax limitation statute known as “Proposition 2 ½” limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year’s allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls (“new growth”). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

B. Budgetary Basis of Accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year’s deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Regional school district assessments are a result of the district's school committee budgetary process and regional agreement. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund, solid waste, and enterprise fund functions are budgeted; the Town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). A comparison of the general fund's budget to actual amounts on a "budget basis" is provided as required supplementary information to provide a meaningful comparison with the budget.

C. Fund Equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2017, the classification of the Town's fund balances can be detailed as follows:

| | General Fund | Solid Waste Fund | Other Governmental Funds | Total |
|----------------------|-------------------------|-----------------------------|---|--------------------|
| Restricted: | | | | |
| General Government | \$ | \$ | \$ 141,256 | \$ 141,256 |
| Public Safety | | | 85,846 | 85,846 |
| Education | | | 204,955 | 204,955 |
| Public Works | | 365,890 | 446,632 | 812,522 |
| Human Services | | | 61,347 | 61,347 |
| Culture & Recreation | | | 252,789 | 252,789 |
| Debt service | 2,319 | | 235,595 | 237,914 |
| subtotal | <u>2,319</u> | <u>365,890</u> | <u>1,428,420</u> | <u>1,796,629</u> |
| Committed: | | | | |
| General Government | 444,507 | | | 444,507 |
| Public Safety | 462,962 | | | 462,962 |
| Education | 49,147 | | | 49,147 |
| Public Works | 1,061,581 | | | 1,061,581 |
| Human Services | 12,900 | | | 12,900 |
| Employee benefits | 7,040 | | | 7,040 |
| subtotal | <u>2,038,137</u> | | | <u>2,038,137</u> |
| Assigned: | | | | |
| General Government | 2,972 | | | 2,972 |
| Public Safety | 1,528 | | | 1,528 |
| Education | 95,332 | | | 95,332 |
| Public Works | 12,170 | | | 12,170 |
| Human Services | 1 | | | 1 |
| Culture & Recreation | 1,578 | | | 1,578 |
| subtotal | <u>113,581</u> | | | <u>113,581</u> |
| Unassigned | <u>2,550,878</u> | | <u>(58,985)</u> | <u>2,491,893</u> |
| Total | <u>\$4,704,915</u> | <u>\$ 365,890</u> | <u>\$1,369,435</u> | <u>\$6,440,240</u> |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

The Town’s stabilization funds are reported within the General fund since the fund is designed to maintain funds set aside by town meeting votes, and is not funded by a specific revenue source. At annual or special town meetings the Town with two-thirds vote may create a stabilization fund, specify or change the purpose of any stabilization fund, and appropriate into or out of any such fund. The Town’s stabilization funds and year end balances is follows:

Stabilization fund \$ 803,895

The stabilization fund balance has been classified as unassigned.

As of June 30, 2017 the Town reported deficit fund balance in other funds as follows:

| <u>Fund Name</u> | <u>Fund Type</u> | <u>Fund Deficit</u> |
|-------------------------|----------------------|---------------------|
| Green communities grant | Special revenue fund | \$ 49,237 |
| SPED 240 grant | Special revenue fund | 7,163 |
| REAP grant | Special revenue fund | 160 |
| EMPG grant | Special revenue fund | <u>2,425</u> |
| | | <u>\$ 58,985</u> |

Fund deficits identified above that relate to cost reimbursement grants and will be covered by subsequent billings to awarding agencies.

D. Restricted Net Position

Restricted net position on the government-wide statement of net position consist of the following:

| | |
|--------------------------|---------------------|
| Conservation Acquisition | \$ 86,000 |
| Landfill Capping | 104,003 |
| Road Repair | 606,143 |
| Solid Waste | 439,516 |
| Septic Grants | 303,778 |
| Cemetary Perpetual Care | 274,610 |
| Other | <u>693,366</u> |
| | <u>\$ 2,507,416</u> |

Note 4. Cash and Cash Equivalents

Massachusetts General Laws (MGL), Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. OPEB funds may be invested in accordance with MGL Chapter 203C. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2017 cash deposits totaled \$7,802,661 and had a carrying amount of \$7,663,209. Of the deposit amounts, \$796,259 was exposed to custodial credit risk at June 30, 2017 as it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts represents outstanding checks and deposits in transit.

Note 5. Investments

The Town's governmental activities' and fiduciary fund investments as of June 30, 2017 consisted of the following:

| Governmental activities: | | | | Maturities | | |
|--------------------------------------|------------------------|----------------|----------------------|-------------------------------|-------------------|---------------------|
| Investment Type | Carrying Amount | Level | Credit Rating | Less than one year | 1-5 years | Total |
| Certificates of deposit | \$ 412,621 | 1 | N/A | \$ 347,164 | \$ 65,457 | \$ 412,621 |
| Money market funds | 25,817 | Amortized Cost | N/A | 25,817 | | 25,817 |
| Corporate bonds | 99,968 | 1 | A2 | 99,968 | | 99,968 |
| Corporate bonds | 74,897 | 1 | A3 | 74,897 | | 74,897 |
| Corporate bonds | 39,967 | 1 | Baa1 | 39,967 | | 39,967 |
| Mutual funds | 63,177 | 1 | Unrated | 63,177 | | 63,177 |
| US Treasury/agencies bonds | 651,259 | 1 | Aaa | | 651,259 | 651,259 |
| Total governmental activities | \$ 1,367,706 | | | \$ 650,990 | \$ 716,716 | \$ 1,367,706 |

Fiduciary funds:

| | | | | Maturities | | |
|------------------------------|------------------------|----------------|----------------------|-------------------------------|------------------|-------------------|
| Investment Type | Carrying Amount | Level | Credit Rating | Less than one year | 1-5 years | Total |
| Money market funds | \$ 790 | Amortized Cost | N/A | \$ 790 | | \$ 790 |
| Mutual funds - equity | 151,721 | 1 | Unrated | 151,721 | | 151,721 |
| Mutual funds - fixed income | 77,331 | 1 | Unrated | 77,331 | | 77,331 |
| Total fiduciary funds | \$ 229,842 | | | \$ 229,842 | \$ | \$ 229,842 |

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment policy limits unsecured deposits.

The Town will review the financial institution's financial statements and the background of the advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy of the firm and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The Town manages interest rate risk by managing duration in the account.

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Notes to Financial Statements

June 30, 2017

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk. Equity securities and equity mutual funds are not rated as to credit risk.

The Town manages credit risk several ways. There will be no limit to the amount of United States Treasury and United States government agency obligations. In regards to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

The credit ratings and maturities associated with the corporate bonds reported in the governmental activities of based upon Moody's ratings is as follows:

| <u>Security Name</u> | <u>Ratings</u> | <u>Maturities</u> | | |
|--------------------------------------|----------------|-------------------------------|------------------|-------------------|
| | | <u>Less than one year</u> | <u>1-5 years</u> | <u>Total</u> |
| AT&T SR NT 1.4% | Baa1 | \$ 39,967 | \$ | \$ 39,967 |
| Wells Fargo CO MTN BE 1.5% | A2 | 99,968 | | 99,968 |
| Fifth Third BK Cin Ohio MTN BE 1.45% | A3 | 74,897 | | 74,897 |
| Total corporate bonds | | <u>\$ 214,832</u> | <u>\$</u> | <u>\$ 214,832</u> |

Concentration of credit risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Town limits investment in any instrument exposed to foreign currency risk.

Note 6. Receivables

The Town includes the following receivables for individual major and other governmental funds, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

Governmental activities:

| <u>Receivable type</u> | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u> |
|---------------------------------------|-------------------------|--|-----------------------|
| Real estate and personal property tax | \$ 814,950 | \$ 33,248 | \$ 781,702 |
| Tax liens, deferrals and foreclosures | 1,009,122 | | 1,009,122 |
| Motor vehicle excise | 179,803 | 40,893 | 138,910 |
| Charges for service/ departmental | 1,208,185 | 550,833 | 657,352 |
| Intergovernmental | 683,917 | | 683,917 |
| Total governmental activities | <u>\$3,895,977</u> | <u>\$624,974</u> | <u>\$3,271,003</u> |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

Business-type activities:

| <u>Receivable type</u> | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u> |
|--------------------------------|-------------------------|--|-----------------------|
| Water rates and charges | \$ 329,508 | \$ 8,340 | \$ 321,168 |
| Total business-type activities | <u>\$ 329,508</u> | <u>\$ 8,340</u> | <u>\$ 321,168</u> |

Note 7. Capital Assets

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

| | <u>Balance June 30, 2016</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2017</u> |
|--|----------------------------------|--------------------|--------------------|----------------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,683,770 | \$ | \$ | \$ 3,683,770 |
| Construction in progress | 243,913 | _____ | (243,913) | _____ |
| Sub-total | 3,927,683 | _____ | (243,913) | 3,683,770 |
| Capital assets being depreciated: | | | | |
| Buildings and related improvements | 12,298,520 | 32,876 | _____ | 12,331,396 |
| Improvements other than buildings | 1,408,018 | _____ | _____ | 1,408,018 |
| Equipment, machinery & vehicles | 3,841,145 | 956,708 | (370,212) | 4,427,641 |
| Infrastructure | <u>28,298,541</u> | <u>323,302</u> | _____ | <u>28,621,843</u> |
| Sub-total | 45,846,224 | 1,312,886 | (370,212) | 46,788,898 |
| Less accumulated depreciation: | | | | |
| Buildings and related improvements | 8,551,124 | 346,750 | _____ | 8,897,874 |
| Improvements other than buildings | 758,661 | 67,310 | _____ | 825,971 |
| Equipment, machinery & vehicles | 2,677,686 | 290,662 | (332,628) | 2,635,720 |
| Infrastructure | <u>15,544,602</u> | <u>738,273</u> | _____ | <u>16,282,875</u> |
| Sub-total | <u>27,532,073</u> | <u>1,442,995</u> | <u>(332,628)</u> | <u>28,642,440</u> |
| Governmental capital assets, net | <u>\$ 22,241,834</u> | <u>\$(130,109)</u> | <u>\$(281,497)</u> | <u>\$ 21,830,228</u> |
| | | | | |
| | <u>Balance June 30, 2016</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2017</u> |
| <u>Business-type activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 626,301 | \$ | \$ | \$ 626,301 |
| Sub-total | 626,301 | _____ | _____ | 626,301 |
| Capital assets being depreciated: | | | | |
| Buildings and related improvements | 47,853 | _____ | _____ | 47,853 |
| Equipment, machinery & vehicles | 406,863 | _____ | _____ | 406,863 |
| Infrastructure | <u>13,624,525</u> | _____ | _____ | <u>13,624,525</u> |
| Sub-total | 14,079,241 | _____ | _____ | 14,079,241 |
| Less accumulated depreciation: | | | | |
| Buildings and related improvements | 34,959 | 960 | _____ | 35,919 |
| Equipment, machinery & vehicles | 332,936 | 11,925 | _____ | 344,861 |
| Infrastructure | <u>5,149,757</u> | <u>187,644</u> | _____ | <u>5,337,401</u> |
| Sub-total | <u>5,517,652</u> | <u>200,529</u> | _____ | <u>5,718,181</u> |
| Business-type capital assets, net | <u>\$ 9,187,890</u> | <u>\$(200,529)</u> | _____ | <u>\$ 8,987,361</u> |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

| | |
|-------------------------|---------------------|
| General Government | \$ 18,443 |
| Public Safety | 296,396 |
| Education | 189,873 |
| Public Works | 908,103 |
| Health & Human Services | 17,920 |
| Culture & Recreation | 12,260 |
| Total | <u>\$ 1,442,995</u> |

Business-type activities

| | |
|------------------------|-------------------|
| Total water operations | <u>\$ 200,529</u> |
|------------------------|-------------------|

Note 8. Interfund Balances and Activity

There are no interfund balances reported at June 30, 2017.

Interfund transfers, for the year ended June 30, 2017, consisted of the following:

| | <u>General Fund</u> | <u>Solid Waste Fund</u> | <u>Other Governmental Funds</u> |
|---|--------------------------------|------------------------------------|--|
| Amounts transferred from receipts reserved for appropriation and revolving funds to fund the operating budget | \$ 46,786 | \$ | \$ (46,786) |
| Transfers to General Fund for purposes of audit expenditures | 6,916 | (6,916) | |
| Transfers to General Fund for purposes of retirement expenditures | | | |
| General Fund transfers to other governmental funds for unemployment, waterways, and grant shortfalls | (6,454) | | 6,454 |
| Transfers from other governmental funds to Solid Waste Fund to close out MADEP MAC Host Grant | | 7,517 | (7,517) |
| Net transfers in / (out) | <u>\$ 47,248</u> | <u>\$ 601</u> | <u>\$ (47,849)</u> |

TOWN OF HALIFAX, MASSACHUETTS

Notes to Financial Statements

June 30, 2017

Note 9. Deferred Inflows and Outflows of Resources

Government-wide Financial Statements:

At June 30, 2017, the Town reported the following deferred outflows and deferred inflows of resources:

| <u>Deferred outflows of resources</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| <i>Pension related:</i> | | | |
| Differences between expected and actual experience | \$ 250,759 | \$ 12,811 | \$ 263,570 |
| Net differences between expected and actual investment earnings | 914,075 | 61,306 | 975,381 |
| Total pension related | <u>1,164,834</u> | <u>74,117</u> | <u>1,238,951</u> |
| <i>OPEB related:</i> | | | |
| Differences between expected and actual experience | <u>2,507,951</u> | <u>56,151</u> | <u>2,564,102</u> |
| Total OPEB related | <u>2,507,951</u> | <u>56,151</u> | <u>2,564,102</u> |
| Total deferred outflows of resources | <u>\$ 3,672,785</u> | <u>\$ 130,268</u> | <u>\$ 3,803,053</u> |
| <u>Deferred inflows of resources</u> | | | |
| <i>Pension related:</i> | | | |
| Changes in actuarial assumptions | \$ 273,156 | \$ 14,797 | \$ 287,953 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>203,277</u> | <u>10,386</u> | <u>213,663</u> |
| Total deferred inflows of resources | 476,433 | 25,183 | 501,616 |
| <i>OPEB related:</i> | | | |
| Net differences between expected and actual investment earnings | <u>311</u> | <u>1</u> | <u>312</u> |
| Total OPEB related | <u>311</u> | <u>1</u> | <u>312</u> |
| Total deferred inflows of resources | <u>\$ 476,744</u> | <u>\$ 25,184</u> | <u>\$ 501,928</u> |

See note 12 for information related to amortization of deferrals related to governmental and business type activities.

Governmental Funds:

Deferred inflows of resources

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and have been considered fully accrued on the government-wide financial statements. The Town reported the deferred revenues in the governmental funds at year end as follows:

| <u>Type</u> | <u>General Fund</u> | <u>Solid Waste Fund</u> | <u>Road Repair Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---------------------------------------|-------------------------|-----------------------------|-----------------------------|---|---------------------|
| Real estate and personal property | \$ 672,183 | \$ | \$ | \$ | \$ 672,183 |
| Tax liens, deferrals and foreclosures | 1,009,122 | | | | 1,009,122 |
| Motor vehicle excise | 179,803 | | | | 179,803 |
| Intergovernmental | 77,773 | | 606,143 | | 683,916 |
| Charges for service/ departmental | <u>1,101,221</u> | <u>73,626</u> | | <u>33,338</u> | <u>1,208,185</u> |
| Total | <u>\$ 3,040,102</u> | <u>\$ 73,626</u> | <u>\$ 606,143</u> | <u>\$ 33,338</u> | <u>\$ 3,753,209</u> |

TOWN OF HALIFAX, MASSACHUSETTS
Notes to Financial Statements
June 30, 2017

Note 10. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

Governmental activities:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>July 1, 2016</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>June 30, 2017</u> | <u>Current Portion</u> |
|----------------------------------|----------------------|-------------------|----------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| MCWT, Septic Betterment | N/A | 8/1/2002 | 8/1/2020 | \$ 51,800 | \$ | \$ (10,400) | \$ 41,400 | \$ 10,400 |
| MCWT, Pool Program | N/A | 11/16/2005 | 8/1/2020 | 100,000 | | (10,000) | 90,000 | 10,000 |
| Landfill Capping | 3.8% - 4.0% | 9/15/2007 | 9/15/2022 | 630,000 | | (90,000) | 540,000 | 90,000 |
| Total governmental bonds payable | | | | 781,800 | | (110,400) | 671,400 | 110,400 |
| Landfill closure and monitoring | | | 2036 | 400,000 | | (20,000) | 380,000 | 20,000 |
| Net OPEB liabilities | | | | 15,376,689 | 3,202,683 | | 18,579,372 | |
| Net pension liability | | | | 9,735,478 | | (240,904) | 9,494,574 | |
| Compensated absences | | | | 936,400 | | (85,759) | 850,641 | |
| | | | | <u>\$ 27,230,367</u> | <u>\$ 3,202,683</u> | <u>\$ (457,063)</u> | <u>\$ 29,975,987</u> | <u>\$ 130,400</u> |

Business-type activities:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>July 1, 2016</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>June 30, 2017</u> | <u>Current Portion</u> |
|-----------------------------------|----------------------|-------------------|----------------------|---------------------|-------------------|---------------------|----------------------|------------------------|
| Water bond | 4.53% | 2/15/1999 | 2/15/2019 | \$ 225,000 | \$ | \$ (75,000) | \$ 150,000 | \$ 75,000 |
| Total business-type bonds payable | | | | 225,000 | | (75,000) | 150,000 | 75,000 |
| Net OPEB liability | | | | 330,613 | 87,442 | (2,120) | 415,935 | |
| Net pension liability | | | | 621,414 | 61,653 | (73,960) | 609,107 | |
| Compensated absences | | | | 9,300 | 409 | | 9,709 | |
| Total business-type activities | | | | <u>\$ 1,186,327</u> | <u>\$ 149,504</u> | <u>\$ (151,080)</u> | <u>\$ 1,184,751</u> | <u>\$ 75,000</u> |

Long-term debt

The outstanding Massachusetts Clean Water Trust (MCWT) bonds above are recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that approximately 33.7 % of the debt service payments relating to the septic bonds will be subsidized by the Commonwealth of Massachusetts via contract payments to MCWT (and MCWT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis supplementary information because it is not part of the local budget. The Town received an interest subsidy for the year of \$2,544.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2017, including interest, are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Governmental Activities</u> | | | <u>Business-type Activities</u> | | |
|---------------------------------------|--------------------------------|------------------|-------------------|---------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 110,400 | \$ 22,097 | \$ 132,497 | \$ 75,000 | \$ 7,163 | \$ 82,163 |
| 2019 | 110,400 | 17,912 | 128,312 | 75,000 | 3,600 | 78,600 |
| 2020 | 110,400 | 13,746 | 124,146 | | | |
| 2021 | 110,200 | 9,549 | 119,749 | | | |
| 2022 | 140,000 | 5,569 | 145,569 | | | |
| 2023 | 90,000 | 1,856 | 91,856 | | | |
| Totals | <u>\$ 671,400</u> | <u>\$ 70,729</u> | <u>\$ 742,129</u> | <u>\$ 150,000</u> | <u>\$ 10,763</u> | <u>\$ 160,763</u> |

The Town is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

As of June 30, 2017, the Town had the following authorized and unissued debt:

| <u>Purpose</u> | <u>Date</u> | <u>Article</u> | <u>Original Authorization</u> | <u>Balance 7/1/2016</u> | <u>Additions</u> | <u>Bonds/ BANs Issued</u> | <u>Balance 6/30/2017</u> |
|----------------------|-------------|----------------|-------------------------------|-------------------------|------------------|---------------------------|--------------------------|
| Halifax Elementary | | | | | | | |
| School Roof & Repair | 3/7/2017 | 1 | \$ 7,194,955 | \$ | \$7,194,955 | \$ | \$7,194,955 |

The Town pays assessments, which include debt service payments to other local governmental units providing services on behalf of the Town (commonly referred to as overlapping debt.) The Town is indirectly liable, through its assessments to these governments, for this debt. However, the debt is not considered against the Town's debt limits or reported on the Town's Statement of Net Position. The Town pays assessments to the Silver Lake Regional School District that include its proportionate share of debt service (capital costs).

Lease obligations

Operating leases

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payments for non-cancelable operating leases are immaterial as of June 30, 2017

Capital leases

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not to exceed five years and subject to annual appropriation. The Town does not have any material capital lease obligation outstanding as of June 30, 2017.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Note 11. Temporary Borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax or revenue anticipation notes (TANs and RANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures and issuance costs for temporary borrowings are accounted for in the appropriate fund.

The Town had no temporary debt outstanding associated with governmental activities at the beginning of the year and no activity during the year. Changes in the Town's temporary debt which is associated with business-type activities for the year ended June 30, 2017 is as follows:

Business-type activities:

| <u>Purpose</u> | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance July 1, 2016</u> | <u>Issued</u> | <u>Retired / Renewed</u> | <u>Balance June, 30 2017</u> |
|--|-------------------|----------------------|----------------------|-----------------------------|------------------|--------------------------|------------------------------|
| Anticipation of Serial Loan - Water Tower Rehab | 11/17/2015 | 0.70% | 11/17/2016 | \$ 700,000 | \$ | \$(700,000) | \$ |
| Anticipation of Serial Loan - Water Tower Rehab | 11/17/2016 | 0.70% | 11/17/2017 | | 630,000 | | 630,000 |
| | | | | <u>\$ 700,000</u> | <u>\$630,000</u> | <u>\$(700,000)</u> | <u>\$ 630,000</u> |

Note 12. Employee Benefits

A. Retirement Benefits

1. Plymouth County Retirement Association

Plan Description

The Plymouth County Retirement Association (Association or Plan) is a multiple-employer, cost sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Plymouth County Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions for these school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System (MTRS). Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. As of December 31, 2016, the Association had 54 participating employers.

The Association is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems. The Association is governed by a five-member Board who establish the policies under which the Association operates. The Association issued an audited financial statement for the year ended December 31, 2016, which may be obtained by contacting the Association directly at: Plymouth County Retirement Association, 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Benefits Provided

The Association 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 public employee retirement systems (PERS). Those 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 credible service, and group creditable service, and group classification. The authority for amending these provisions rests with the legislature.

Contributions

There are three classes of membership in the retirement system: Group 1, Group 2 and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have specified as hazardous. Lastly, Group 4 consists of police officers, firefighters and other hazardous positions.

Any individual in Group 1 or Group 2 whose membership began before January 1, 1978 and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or later, regardless of how many years or creditable service. There is no minimum vesting requirements for individuals in Group 4.

Members in Group 1 and 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon completion of 10 years of service and upon reaching age 55.

Members in Group 1 and 2, hired on or after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching age 60 (Group 1) or age 55 (Group 2).

Governmental employers are required to pay an annual appropriation established by PERAC. The total appropriation includes the amount to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and an additional appropriation in accordance with adopted early retirement incentive programs. The total appropriations are payable July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discount rate of approximately 2%. The pension fund appropriations are allocated among employers based on covered payroll. The Town's statutorily required contribution for the year was \$1,111,384. There was an early pay discount of \$20,978 for a net payment of \$1,090,406.

Pension liabilities, expenses, and deferred outflows of resources related to pensions

The collective net pension liability of the Association was determined by an actuarial valuation as of January 1, 2017 and a measurement date of December 31, 2016.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

At December 31, 2016 (measurement date) based upon valuation date of January 1, 2017:

| | <u>2016</u> |
|---|--------------------|
| Total pension liability | \$ 1,520,090,445 |
| Less: plan fiduciary net position | <u>886,584,737</u> |
| Net pension liability | \$ 633,505,708 |
| | |
| Plan's fiduciary net position as a percentage of total pension liability | 58.32% |
| | |
| Total employer pension expense | \$ 86,118,672 |
| The Town's proportionate share of the collective net pension liability | \$ 10,103,681 |
| The Town's percentage share of the collective net pension liability | 1.5949% |
| Town covered payroll | \$ 5,010,003 |
| The Town's proportionate share of pension expense recognized | \$ 1,249,128 |

The total net deferred inflows/outflows of resources was \$59,497,726 at December 31, 2016. The Town's proportionate share of collective deferred inflows/outflows of resources was \$737,335, which was the result of the differences between expected and actual earnings on investments, differences between expected and actual experience, changes in actuarial assumptions and changes in proportion. This is to be recognized in future pension expense in the amount of \$279,999 for each of the years ending June 30, 2018, June 30, 2019, \$172,316 for the year ending June 30, 2020 and \$5,021 for the year ending June 30, 2021.

Actuarial Assumptions

| | |
|--------------------------------|--|
| Valuation date: | January 1, 2017 |
| Actuarial cost method: | Individual Entry Age Normal Cost Method. |
| Amortization method: | Payments increase at 3.5% for the unfunded actuarial accrued liability, and level amortization of the 2002, 2003, and 2013 Early Retirement Incentives. |
| Remaining amortization period: | Amortization of the unfunded actuarial accrued liability over 12 years, the 2002 ERI over two years, the 2003 ERI over three years, and the 2013 ERI over 11 years as of July 1, 2017. |
| Asset valuation method: | Market value with a five year smoothing of asset returns greater than or less than the assumed rate of return, with a 20% corridor. |
| Investment rate of return: | 8.00%, net of investment expense |
| Projected salary increases: | 3.75% per year |
| Cost-of-living adjustments: | 3.00% of the less of the pension amount and \$14,000 per year |
| Rates of retirement: | Varies based upon age for general employees, police, and fire employees |
| Rates of disability: | General employees – 45% ordinary (55% service connected) Police & Fire – 10% ordinary (90% service connected) |
| Mortality rates: | |
| Pre and post retirement: | RP-2014 Mortality Table, adjusted to 2016 with Scale AA |
| Disabled retiree: | RP-2000 Mortality Table, set forward six years |
| Family composition: | Assumption that 80% of members will be survived by a spouse, females are three years younger than males and males are three years older than females |

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Investment Policy

The Plan's investment policy in regard to the allocation of invested assets is established by the Board and pursuant to Massachusetts General Laws and Public Employee Retirement Administration guidelines. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The investment objective is to fully fund the Plan by generating sufficient long-term inflation adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility, recognizing these are often competing goals. This requires taking both assets and liabilities into account when setting investment strategy. The pension's plan target asset allocation as of January 1, 2017 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Rate of Return</u> |
|--------------------------|--------------------------|--|
| US equity | 26.50% | 7.50% |
| Developed markets equity | 16.00% | 7.30% |
| Emerging markets equity | 4.00% | 9.80% |
| Core bonds | 11.50% | 4.20% |
| Foreign bonds | 3.00% | 2.40% |
| Emerging market bonds | 4.00% | 5.50% |
| High yield bonds | 4.00% | 6.00% |
| Bank loans | 3.00% | 5.50% |
| Private equity | 10.00% | 9.60% |
| Real estate | 10.60% | 6.90% |
| Natural resources | 1.00% | 7.00% |
| Infrastructure | 2.00% | 7.80% |
| Hedge funds of funds | 4.00% | 5.30% |
| Cash | <u>1.0%</u> | 2.80% |
| Total | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The discount rate was selected based on a projection of employer and employee contributions benefit payments, expenses and the long term expected rate of return on trust assets. Under Chapter 32 of the Massachusetts General Law, employers are required to make the necessary contributions to the trust such that the plan reaches a full funding status by 2040.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Sensitivity of the net position liability to changes in the discount rate

The following presents the net position liability calculated using the discount rate of 8.00%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.00%) or 1-percentage point higher (9.00%)

| | 1% Decrease to 7.00% | Current Discount Rate 8.00% | 1% Increase to 9.00% |
|--|---------------------------------|--|---------------------------------|
| Plymouth County Retirement Association's net pension liability as of December 31, 2016 | \$ 792,114,439 | \$ 633,505,708 | \$ 498,613,279 |
| Town of Halifax's net pension liability as of December 31, 2016 | \$ 12,629,912 | \$ 10,103,681 | \$ 7,950,167 |

2. Special Funding Situation - MTRS

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 of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaborative and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. Financial information of the MTRS' Pension Trust fund financial statements is contained in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth's CAFR may be obtained by contacting the Comptroller's office directly at One Ashburton Place #919, Boston, MA 02108.

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 services ex-officio as the Chairman of the MTRB.

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers, including the Collaborative, are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. However, the Town is required to disclose the portion of the nonemployer contributing entities' (the Commonwealth) share of the collective net pension liability that is associated with the Town. In addition, the Town must recognize its portion of the collective pension expense as both a revenue and pension expense.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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 public employee retirement systems (PERS). Those 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 credible 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.

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 |

Contributions are provided by the Commonwealth on behalf of the Town based upon actuarially determined amounts. The nonemployer contribution made by the Commonwealth to the MTRS on behalf of the Town was \$581,524. This amount has been included on the District's statement of revenues, expenses and fund balance under intergovernmental revenue and employee benefits and other charges. The annuity portion of the MTRS retirement is funded by employees, through contribution of a percentage of their compensation as indicated above.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Pension Liabilities and expenses related to pensions

The collective net pension liability of the MTRS was determined by an actuarial valuation as of January 1, 2016, rolled forward to June 30, 2016 (measurement date). The following table illustrates the Plan's net pension liability and the Commonwealth's proportionate share associated with the Town.

| | <u>2016</u> |
|---|-----------------------|
| Total pension liability | 47,300,000,000 |
| Less: plan fiduciary net position | <u>24,942,072,000</u> |
| Net pension liability | 22,357,928,000 |
| | |
| Plan's fiduciary net position as a percentage of total pension liability | 52.73% |
| | |
| Commonwealth's proportionate share of collective net pension liability associated with the Town | \$ 11,561,285 |
| Commonwealth's proportionate share associated with the Town as a percentage of the total net pension liability | 0.051710% |
| Commonwealth's proportionate share of pension expense associated with the Town | \$ 1,179,327 |

In the Statement of Activities, the Commonwealth's proportionate share of pension expense of \$1.2 million has been reported as Program Revenue Operating Grant and Contributions and employee benefits and other insurances expenses. As the net pension liability is a special funding situation, and the Town does not contribute to MTRS, the Town does not book a liability in the Statement of Net Position.

Actuarial Assumptions

The calculation used the following assumptions:

- (1) (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.
- (2) Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- (3) Mortality rates were as follows:
 - Pre-retirement: reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement: reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Disability: assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years.

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

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|---------------------------------|--------------------------|--|
| Global Equity | 40.0% | 6.9% |
| Core Fixed Income | 13.0% | 1.6% |
| Private Equity | 10.0% | 8.7% |
| Real Estate | 10.0% | 4.6% |
| Value Added Fixed Income | 10.0% | 4.8% |
| Hedge Funds | 9.0% | 4.0% |
| Portfolio Completion Strategies | 4.0% | 3.6% |
| Timber/Natural Resources | 4.0% | 5.4% |
| Total | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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 period of projected benefit payments to determine the total pension liability.

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 at June 30, 2015 (in thousands).

| | 1% Decrease to <u>6.50%</u> | Current Discount Rate <u>7.50%</u> | 1% Increase to <u>8.50%</u> |
|--|--|---|--|
| Massachusetts Teacher's Retirement System - Total Plan | \$ 27,464,000,000 | \$ 22,357,928,000 | \$ 18,022,000,000 |
| Proportionate share associated with the Town | \$ 14,201,634 | \$ 11,561,285 | \$ 9,319,176 |

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused vacation and sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Position for both governmental and business-type activities, in the amounts of \$850,641 and \$9,709, respectively.

TOWN OF HALIFAX, MASSACHUSETTS
Notes to Financial Statements
June 30, 2017

C. Other Post-Employment Benefits

Plan Description

The Town administers a single employer defined benefit plan which provides health and prescription drug benefits to substantially all retired employees and their spouses (plan members). Eligibility to retire under the Town's plan is based upon meeting one of the following conditions:

- (1) At least 10 years of creditable service are eligible at age 55;
- (2) At least 20 years of creditable serve are eligible at any age.

Benefits Provided and Employees Covered

Benefits were paid to retirees, beneficiaries and dependents during the fiscal year ended June 30, 2017 and are paid on a pay as you go basis. These benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and Town ordinances.

At June 30, 2016, the date of the actuarial valuation, the following employees were covered by the benefit terms:

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 107 |
| Active employees | <u>123</u> |
| Total | <u><u>230</u></u> |

Contributions

The contribution rates of retirees are established by collective-bargaining agreements, Massachusetts General Law, and Town ordinances. The required contribution is based on pay as you go financing requirements. All benefits are provided through a third-party insurance carrier that administers, assumes, and pays all claims. The Town contributes at least 50% of the insurance premiums with the remainder funded through retiree contributions.

The Town has accepted provisions of MGL Chapter 32B, Section 20 which allow for the Town to establish a separate OPEB liability trust fund. During fiscal year 2017, the Town employer contribution was \$35,000 into the trust fund. As of the date of these financial statements, the Town has not proposed any funding schedule in accordance with the law's provisions. Contributions in excess of premium payments are determined on an annual basis during the budgetary process. For the year ended June 30, 2017, the Town's average contribution rate was 5.14% of covered-employee payroll. Active employees are not required to contribute to the plan.

Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise stated:

| | |
|------------------------------|--|
| Inflation: | 3.0 percent |
| Salary increases: | 3.0 percent, average, including inflation |
| Investment rate of return: | 2.75 percent, net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates: | 5.0 percent, level for all years |

Mortality rates were based on pre-retirement, post-retirement, and disabled mortality tables. Pre-retirement mortality is represented by the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females. Post-retirement mortality is represented by the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females. Disabled mortality is represented by the RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the year ended June 30, 2016. The experience study generated a loss that was mainly due to premiums for Non-Medicare integrated plans increasing more than the expected 5% increase. The changes in net OPEB liability due to the experience study were reflected in the deferred outflows of resources and are to be amortized over the next 5.17 years.

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

| <u>Asset Class</u> | <u>Long-Term Expected</u> | |
|-----------------------------|---------------------------|----------------------------|
| | <u>Target Allocation</u> | <u>Real Rate of Return</u> |
| Domestic Equity - Large Cap | 66.01% | 4.00% |
| Domestic Fixed Income | 33.65% | 2.00% |
| Cash | 0.34% | 0.00% |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.0 percent. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made a “pay as you go” basis. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to no be available to make all projected OPEB payments for current and inactive employees. Therefore, the yield or interest rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher was used. Since the last valuation date of July 1, 2014, the discount rate has changed from 4.0 percent to 3.0 percent.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|--|-------------------------------------|--|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balances at June 30, 2015 | \$ 15,848,476 | \$ 141,174 | \$ 15,707,302 |
| Changes for the year: | | | |
| Service cost | 641,713 | | 641,713 |
| Interest | 489,214 | 4,235 | 484,979 |
| Differences between expected and actual experience | 2,564,102 | | 2,564,102 |
| Contributions - employer | | 35,000 | (35,000) |
| Net investment income | | (975) | 975 |
| Benefit payments | (368,764) | | (368,764) |
| Net changes | 3,326,265 | 38,260 | 3,288,005 |
| Balances at June 30, 2016 (measurement date) | \$ 19,174,741 | \$ 179,434 | \$ 18,995,307 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.0 percent) or 1-percentage-point higher (4.0 percent) than the current discount rate:

| | 1% Decrease (2.00%) | Current Discount Rate (3.00%) | 1% Increase (4.00%) |
|--------------------|--------------------------------|--|--------------------------------|
| Net OPEB Liability | \$ 23,783,927 | \$ 18,995,307 | \$ 15,514,226 |

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.0 percent) or 1-percentage-point higher (6.0 percent) than the current healthcare cost trend rates for each year within the trend:

| | 1% Decrease (4.00%) | Current Trend Rate (5.00%) | 1% Increase (6.00%) |
|--------------------|--------------------------------|---------------------------------------|--------------------------------|
| Net OPEB Liability | \$ 12,726,416 | \$ 18,995,307 | \$ 27,345,812 |

The total net deferred inflows/outflows of resources related to net OPEB liability was \$2,563,790 at June 30, 2016, which was the result of the net difference between projected and actual investment earnings of the plan investments and differences between expected and actual experience. This is to be recognized in future pension expense in the amount of \$495,896 for each of the years ending June 30, 2018 – 2022 and \$84,310 for the years ending June 30, 2023.

Note 13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. The landfill has stopped accepting solid waste and pursuant to a Massachusetts Department of Environmental Protection consent order, the Town has placed a final cover on its landfill.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

As of June 30, 2017, \$380,000 has been reported on the Town's statement of net position as an estimated liability for post-closure monitoring costs of the landfill, through 2036. Actual costs may change due to regulatory authorities, changing technology, and inflation.

Note 14. 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, injuries to employees, unemployment claims and natural disasters. The Town carries commercial insurance for all risk except health insurance and unemployment claims.

The Town belongs to the Mayflower Municipal Health Group (Group) a joint purchasing group, formed pursuant to Massachusetts General Law Chapter 32B, Section 12 to provide insurance benefits. The Town pays premiums to the group based upon a 50% (Town) and 50% (Employee). The Town budgets, annually, in the general fund for its estimated share of contributions. The Town paid approximately \$1,848,909 to the Group in fiscal year 2017. The Group maintains reinsurance for claims in excess of \$300,000, per participant per lifetime. Net position of the group at June 30, 2017 was \$10.9 million (unaudited). Additional information can be obtained by contacting the Group's treasurer directly at Mayflower Municipal Health Group, P.O. Box 3390, Plymouth, MA 02361.

The Town is self-insured for unemployment compensation. The town has determined the liability for the unemployment compensation to be immaterial at June 30, 2017.

Note 15. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.

Note 16. Restatements

Net position has been restated as a result of adjustments made to conform to new accounting pronouncements. In fiscal year 2017, the Town elected to early implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The implementation of new accounting pronouncements had the following effect on beginning net position:

| | Governmental Activities | Water Fund/ Business-type Activities | Total Primary Government |
|--|------------------------------------|---|---|
| Net Position, June 30, 2016 | \$ 14,217,213 | \$ 9,171,297 | \$ 23,388,510 |
| OPEB liability, June 30, 2016, reported pursuant to GASB #45 | 5,808,493 | 198,022 | 6,006,515 |
| OPEB liability, June 30, 2015 (beginning of the measurement period) pursuant to implementation of GASB #75 | (15,376,689) | (330,613) | (15,707,302) |
| Net change | (9,568,196) | (132,591) | (9,700,787) |
| Net position, July 1, 2016, restated | <u>\$ 4,649,017</u> | <u>\$ 9,038,706</u> | <u>\$ 13,687,723</u> |

TOWN OF HALIFAX, MASSACHUSETTS
Notes to Financial Statements
June 30, 2017

Note 17. Implementation of GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (“GASB”), which the Town believes are applicable to its financial statements.

Current pronouncements

The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This pronouncement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Town has implemented this pronouncement.

The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The Town early implemented this statement in the current year.

The GASB issued Statement #77, *Tax Abatement Disclosures*. This pronouncement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Town has assessed this pronouncement and determined that it does not have a significant effect on financial reporting.

The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 41*. The objective of this pronouncement is to improve financial reporting by clarifying the financial statement presentation for certain component units. The Town has assessed this pronouncement and determined that it does not have a significant effect on financial reporting.

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*. The pronouncement issues guidance improving accounting and financial reporting for these agreements which are used by donors to provide resources to two or more beneficiaries, including governments. The Town has assessed this pronouncement and determined that it does not have a significant effect on financial reporting.

Future pronouncements

The GASB issued Statement #82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73* which is generally required to be implemented in fiscal year 2018. The pronouncement addresses certain classification, presentation and other issues raised with previous Statements addressing pension obligations. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in fiscal year 2019. The pronouncement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Town does not expect this pronouncement to have a material effect on the financial statements.

TOWN OF HALIFAX, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020. The pronouncement establishes criteria for identifying fiduciary activities and its objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in fiscal year 2018. This pronouncement addresses practice issues that have been identified during implementation and application of certain GASB Statements. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #86, *Certain Debt Extinguishing Issues*, which is required to be implemented in fiscal year 2018. This pronouncement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transaction in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #87, *Leases*, which is required to be implemented in fiscal year 2021. This pronouncement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Town expects to implement the pronouncement as applicable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Changes in the Town's Net OPEB Liability and Related Ratios
 For the Year Ended June 30, 2017

| Total OPEB liability | <u>2016</u> |
|--|-----------------------------|
| Service cost | \$ 641,713 |
| Interest | 489,214 |
| Changes of benefit terms | |
| Differences between expected and actual experience | 2,564,102 |
| Changes of assumptions | |
| Benefits payments | <u>(368,764)</u> |
| Net change in total OPEB liability | 3,326,265 |
| Total OPEB liability - beginning | <u>15,848,476</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 19,174,741</u></u> |
| Plan fiduciary net position | |
| Contributions - employer | \$ 403,764 |
| Interest | 4,235 |
| Net investment income | (975) |
| Benefit payments | (368,764) |
| Administrative expense | |
| Net change in fiduciary net position | 38,260 |
| Plan fiduciary net position - beginning | <u>141,174</u> |
| Plan fiduciary net position - ending (b) | <u><u>179,434</u></u> |
| Town's net OPEB liability - ending (a-b) | <u><u>\$ 18,995,307</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.94% |
| Covered - employee payroll | 8,249,689 |
| Town's net OPEB liability as a percentage of covered-employee payroll | 230.25% |

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years which information is available.

Notes to Schedule:

Changes in assumptions (effective June 30, 2016):

- Discount rate is 3.00%, previously 4.00%
- The assumed pre-retirement mortality table is RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2000 Mortality Table projected to 2017
- The assumed post-retirement mortality table is RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year of 2009 for males and females, previously RP-2000 Mortality Table projected to 2017.
- Actuarial cost method – Individual Entry Age Normal

See Independent Auditor's Report

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Contributions – Other Postemployment Benefits
 For the Year Ended June 30, 2017

| | <u>2016</u> |
|---|----------------------------|
| Actuarially determined contribution | \$ 1,634,432 |
| Contributions in relation to the actuarially determined contribution | <u>\$ 423,896</u> |
| Contribution deficiency (excess) | <u><u>\$ 1,210,536</u></u> |
| Covered-employee payroll | \$ 8,249,689 |
| Contributions as a percentage of covered-employee payroll | 5.14% |

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years which information is available.

Notes to the Schedule:

Valuation date: Actuarially determined contribution rates are calculated as of June 30, 2016, one year prior to the end of the fiscal year which contributions are reported.

| | |
|------------------------------|---|
| Actuarial cost method: | Entry Age Normal |
| Amortization method: | Level percentage of payroll; closed |
| Amortization period: | 22 years as of valuation date, 6/30/2016 |
| Asset valuation method: | Market Value, as of the measurement date |
| Inflation: | 2.75 percent |
| Healthcare cost trend rates: | 5.0 percent, level. |
| Salary increases: | 3.0 percent |
| Investment rate of return: | 2.75 percent (based on investment policy) |
| Retirement age: | In the 6/30/2016 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience. |
| Mortality: | Pre-retirement & Post-retirement: represented by the RP-2000 Employees Retirement Mortality Tables projected generationally with scale BB and a base year 2009 for males and females; Disabled: represented by the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females. |

TOWN OF HALIFAX, MASSACHUSETTS
Required Supplementary Information
Schedule of Investment Returns – Other Postemployment Benefits
For the Year Ended June 30, 2017

| | <u>2016</u> |
|--|-------------|
| Annual money-weighted rate of return, net of investment expense | 2.31% |

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town will present information for those years which information is available.

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Pension Plan Contributions
 For the Year Ended June 30, 2017

A. Plymouth County Retirement Association

The Plymouth County Retirement Association (the Plan) is a multiple-employer, cost sharing, contributory defined benefit pension plan covering eligible employees (except for school department employees who serve in a teaching capacity).

Based on the actuarial valuation date of the Plan of January 1, 2017 and measurement date of December 31, 2016, the following is presented:

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------------|-----------------------|-----------------------|
| Total pension liability | \$ 1,520,090,445 | \$ 1,466,863,880 | \$ 1,417,490,110 |
| Less: | | | |
| Plan fiduciary net position | <u>(886,584,737)</u> | <u>(832,637,492)</u> | <u>(834,581,696)</u> |
| Net pension liability | <u>\$ 633,505,708</u> | <u>\$ 634,226,388</u> | <u>\$ 582,908,414</u> |
| | | | |
| Plan fiduciary net position as a percentage of total pension liability | 58.32% | 56.80% | 58.90% |
| | | | |
| Town's proportionate/allocated share of collective net pension liability | \$ 10,103,681 | \$ 13,619,585 | \$ 12,517,560 |
| Town's proportionate share of pension expense | \$ 1,249,128 | \$ 1,137,832 | \$ 1,294,521 |
| Town's share of collective net pension liability as a percentage of the total | 1.595% | 2.150% | 2.150% |
| Actuarially determined contribution | \$ 1,090,406 | \$ 1,287,561 | \$ 1,191,129 |
| Contributions in relation to actuarial determined contribution | <u>\$ (1,090,406)</u> | <u>\$ (1,287,561)</u> | <u>\$ (1,191,129)</u> |
| Contribution deficiency(excess) | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |
| | | | |
| Town's covered payroll | \$ 5,010,003 | \$ 5,333,530 | \$ 5,140,752 |
| Town's contributions as a percentage of covered payroll | 21.76% | 24.14% | 23.17% |
| Town's proportionate share of the collective net pension liability as a percentage of covered payroll | 201.67% | 255.36% | 243.50% |

**This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

See Independent Auditor's Report

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Pension Plan Contributions
 For the Year Ended June 30, 2017

B. Special Funding Situation – Massachusetts Teachers’ Retirement Association

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make actuarially determined employer contributions on behalf of 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 and the Commonwealth is a nonemployer contributing entity in MTRS (the Plan). Since the Town does not contribute directly to the Plan, there is no net pension liability to recognize for each employer.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------------|--------------------------|--------------------------|
| Total pension liability | 47,300,000,000 | \$ 45,918,711,000 | \$ 41,435,000,000 |
| Less: | | | |
| Plan fiduciary net position | <u>(24,942,072,000)</u> | <u>(25,429,068,000)</u> | <u>(25,538,646,000)</u> |
| Net pension liability | <u>\$ 22,357,928,000</u> | <u>\$ 20,489,643,000</u> | <u>\$ 15,896,354,000</u> |
| | | | |
| Plan fiduciary net position as a percentage of total pension liability | 52.73% | 55.38% | 61.64% |
| | | | |
| Commonwealth's proportionate/allocated share of collective net pension liability associated with the Town | \$ 11,561,285 | \$ 10,743,539 | \$ 8,315,860 |
| Commonwealth's proportionate share of collective pension expense associated with the Town | \$ 1,179,327 | \$ 871,396 | \$ 577,737 |
| Commonwealth's proportionate share of collective net pension liability as a percentage of the total | 0.051710% | 0.052434% | 0.052313% |
| Actuarially determined contribution | \$ 581,524 | \$ 535,000 | \$ 490,000 |
| Contributions in relation to actuarial determined contribution | <u>\$ (581,524)</u> | <u>\$ (535,000)</u> | <u>\$ (490,000)</u> |
| Contribution deficiency(excess) | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | | | |
| Town's covered payroll -approximate | \$3.4 million | \$3.3 million | \$3.2 million |
| Commonwealth's contributions on behalf of the Town as a percentage of covered payroll | 17.10% | 16.12% | 15.29% |
| Commonwealth's proportionate share of the collective net pension liability as a percentage of covered payroll | 340.04% | 323.24% | 259.26% |

**This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available. Based on the actuarial valuation date and measurement date of the Plan of January 1, 2016, the following is presented:

See Independent Auditor’s Report

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Budgetary Comparison Schedule – General Fund
 For the Year Ended June 30, 2017

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues | | | | |
| Property taxes | \$ 15,355,189 | \$ 15,355,189 | \$ 15,442,098 | \$ 86,909 |
| Excise taxes | 950,941 | 950,941 | 1,177,839 | 226,898 |
| Licenses, fees and permits | 151,000 | 151,000 | 149,855 | (1,145) |
| Penalties and interest | 166,000 | 166,000 | 223,151 | 57,151 |
| Investment income | 1,600 | 1,600 | 2,408 | 808 |
| Charges for services | 411,000 | 411,000 | 433,202 | 22,202 |
| Departmental and other | 113,270 | 113,270 | 214,313 | 101,043 |
| Intergovernmental | 3,852,893 | 3,852,893 | 3,988,992 | 136,099 |
| Total revenues | <u>21,001,893</u> | <u>21,001,893</u> | <u>21,631,858</u> | <u>629,965</u> |
| Expenditures | | | | |
| General government | 1,706,522 | 1,494,477 | 1,415,076 | 79,401 |
| Public safety | 3,045,387 | 2,942,514 | 2,802,703 | 139,811 |
| Education | 12,457,439 | 12,468,960 | 12,398,255 | 70,705 |
| Public works | 1,554,471 | 830,741 | 773,803 | 56,938 |
| Human services | 549,617 | 497,866 | 472,270 | 25,596 |
| Culture and recreation | 377,598 | 392,525 | 380,757 | 11,768 |
| Employee benefits and other charges | 2,725,947 | 2,550,145 | 2,396,930 | 153,215 |
| State and county assessments | 129,338 | 129,338 | 130,721 | (1,383) |
| Debt service | 119,188 | 119,188 | 114,188 | 5,000 |
| Total expenditures | <u>22,665,507</u> | <u>21,425,754</u> | <u>20,884,703</u> | <u>541,051</u> |
| Revenues over (under) expenditures | (1,663,614) | (423,861) | 747,155 | 1,171,016 |
| Other financing sources (uses) | | | | |
| Transfers in from other funds | 241,875 | 282,948 | 282,441 | (507) |
| Transfers out to other funds | (35,000) | (40,000) | (42,531) | (2,531) |
| Total other financing sources (uses) | <u>206,875</u> | <u>242,948</u> | <u>239,910</u> | <u>(3,038)</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | (1,456,739) | (180,913) | <u>\$ 987,065</u> | <u>\$ 1,167,978</u> |
| Other budget items: | | | | |
| Use of available fund balance | 309,900 | 326,404 | | |
| Overlay surplus | 47,350 | 47,350 | | |
| Carryover encumbrances and articles | 1,099,489 | (192,841) | | |
| Total other budget items | <u>1,456,739</u> | <u>180,913</u> | | |
| Net budget | <u>\$</u> | <u>\$</u> | | |

See Independent Auditor's Report

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Budgetary Comparison Schedule – Solid Waste Fund
 For the Year Ended June 30, 2017

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Charges for services | \$ 275,000 | \$ 275,000 | \$ 340,071 | \$ 65,071 |
| Investment income | | | 374 | 374 |
| Total revenues | <u>275,000</u> | <u>275,000</u> | <u>340,445</u> | <u>65,445</u> |
| Expenditures | | | | |
| Public works | <u>383,208</u> | <u>382,458</u> | <u>324,230</u> | <u>58,228</u> |
| Total expenditures | <u>383,208</u> | <u>382,458</u> | <u>324,230</u> | <u>58,228</u> |
| Revenues over (under) expenditures | (108,208) | (107,458) | 16,215 | 123,673 |
| Other financing sources (uses) | | | | |
| Transfers in from other funds | | | 7,517 | 7,517 |
| Transfers out to other funds | | | <u>(6,916)</u> | <u>(6,916)</u> |
| Total other financing sources (uses) | | | 601 | 601 |
| Revenues and other financing sources over (under) expenditures and other financing uses | (108,208) | (107,458) | <u>\$ 16,816</u> | <u>\$ 124,274</u> |
| Other budget items: | | | | |
| Use of available fund balance | 102,208 | 102,208 | | |
| Carryover encumbrances and articles | <u>6,000</u> | <u>5,250</u> | | |
| Total other budget items | <u>108,208</u> | <u>107,458</u> | | |
| Net budget | <u>\$</u> | <u>\$</u> | | |

TOWN OF HALIFAX, MASSACHUSETTS
 Required Supplementary Information
 Notes to the Budgetary Comparison Schedule – General Fund
 For the Year Ended June 30, 2017

Note 1. Budgetary Basis of Accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year’s deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted, the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the Budgetary Comparison Schedule – General Fund, are presented on a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). There are no differences between the budgetary-basis and GAAP-basis results for the Solid Waste Fund for the fiscal year ended June 30, 2017. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2017, is presented below:

| <u>General Fund:</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Other Financing Sources (Uses)</u> |
|---------------------------------------|------------------------|----------------------------|--|
| As reported on budgetary basis | \$ 21,631,858 | \$ 20,884,703 | \$ 239,910 |
| Net activity in stabilization funds | 4,967 | | (168,823) |
| State funded teachers pension | 581,524 | 581,524 | |
| Revenue accrual | 32,384 | | |
| Overlay adjustment | 85,133 | | |
| OPEB transfer | | 35,000 | 35,000 |
| Water fund transfers - indirect costs | | (59,916) | (59,916) |
| Other reconciling items | (1,789) | 23,964 | 1,077 |
| As reported on GAAP basis | <u>\$ 22,334,077</u> | <u>\$ 21,465,275</u> | <u>\$ 47,248</u> |

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD**

To the Honorable Board of Selectmen
Town of Halifax, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the financial statements of the Town of Halifax, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Halifax, Massachusetts' basic financial statements and have issued our report thereon dated January 9, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies [2016-001].

Compliance and Other Matters

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

Town of Halifax, Massachusetts' Response to Findings

Town of Halifax, Massachusetts' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Halifax, Massachusetts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Lynch Marini & Associates Inc.

Norwell, Massachusetts
January 9, 2018

TOWN OF HALIFAX, MASSACHUSETTS

Schedule of Findings and Responses

For the Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiency

2016-001 - Implement procedures to reconcile cash timely and accurately

Criteria: The Town must provide adequate procedures to maintain adequate internal controls over the Town's cash balance and bank accounts.

During the year there were two cash accounts not on the books and some investments were recorded at cash book value instead of fair market value. Adjusting entries at year end were made to adjust the cash and investment balance.

Effect: Without complete and accurate reconciliation of cash accounts to the general ledger each month, the Town is at risk of overstating or understating cash balances.

Recommendation: We understand the Town has incrementally improved its cash reconciliation procedures over the past. However we continue to recommend the Town provide procedures for maintaining timely and accurate bank reconciliations throughout the year.

Management's Response: Formal policies are in place regarding reconciliation procedures. The Town reconciles cash accounts on a monthly basis and has been advised to use cash values on investments, but will use fair market values going forward. The Town intends on adding an account to the general ledger to ensure that all cash accounts are included in the reconciliation process.