

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF HATFIELD, MASSACHUSETTS

Report on Examination of the Basic Financial Statements and
Additional Information

Year Ended June 30, 2018



TOWN OF HATFIELD, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Hatfield, 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 Hatfield, Massachusetts, (the Town) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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. *Except as discussed in the section titled scope limitation*, 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 of 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 those 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 purposes 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.

Except as discussed in the section titled scope limitation, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Scope Limitation

We were unable to secure sufficient audit evidence to allow us to assess if the receivables as presented in the financial statements are materially correct. We cannot measure the impact if any of this scope limitation to the financial statements as presented.

Departure from Generally Accepted Accounting Principles

During the year ended June 30, 2018 the Town was required to adopt GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Town did not adopt this accounting standard. This is a departure from generally accepted accounting principles. The amount by which this departure would affect the liabilities, net position and expenses of the governmental and business-type activities is not reasonably determinable

Opinions

In our opinion, except for the effects of departure described in the preceding paragraph, and the impact on the financial statements if any due to the condition described under scope limitation, the financial statements referred to above present fairly, in all other material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 1, 2019

Management Discussion and Analysis

As the management of the Town of Hatfield, Massachusetts (The “Town”), we offer readers of the Town’s financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by over \$18.1 million (*total net position*). Over \$13.8 million represented net position of governmental activities and almost \$4.3 million represented net position of the business-type activities.
- The government’s total net position increased by almost \$0.5 million. The governmental activities increased net position by almost \$0.4 million, while the business-type activities increased about \$0.1 million. Operations were predominantly in line with expectations.
- The Town’s Unassigned Fund Balance reported in the General Fund was almost \$1.7 million (16.7% of General Fund expenditures). Total Fund Balance in the General Fund was over \$2.0 million (20.0% of General Fund expenditures). Furthermore, the Town reported a restricted fund balance of over \$1.5 million in the Community Preservation Fund; a restricted fund balance of over \$1.2million in the School Choice Fund; and reported total fund balances of almost \$1.0 million in the Nonmajor Governmental Funds.
- Regular scheduled maturities of debt were less than \$0.3 million as total debt was reduced to about \$1.7 million; of this amount, about \$0.3 million related to governmental activities and the remainder to business-type activities.

Overview of the Financial Statements

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

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

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

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

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications:

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

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. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains a number of 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, community preservation fund, school choice fund which are all considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found after the footnotes to the financial statements.

Proprietary Funds- The Town maintains two types of proprietary funds. *Enterprise funds* are used to report the same function presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the sewer and water enterprise funds activities.

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

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 are included in this report after the financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s proportionate share of net pension liability, contributions to pension plan, information regarding the Town’s special funding situation for teacher contributions to pensions and funding, and contribution progress of the Town’s other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.

Government-wide Financial Analysis

The following tables represent the condensed statement of net position and statement of changes in net position for fiscal years ended June 30, 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Assets</u>						
Current and other assets	\$ 7,944,225	\$ 7,270,007	\$ 4,263,649	\$ 3,661,275	\$ 12,207,874	\$ 10,931,282
Capital assets, net	13,041,149	13,583,102	5,304,115	5,438,047	18,345,264	19,021,149
Total assets	20,985,374	20,853,109	9,567,764	9,099,322	30,553,138	29,952,431
<u>Deferred Outflows of Resources</u>						
	807,633	617,997	103,081	78,877	910,714	696,874
<u>Liabilities</u>						
Long-term liabilities	5,755,095	6,288,173	1,781,187	2,057,253	7,536,282	8,345,426
Other liabilities	1,518,516	1,632,626	3,520,244	2,943,277	5,038,760	4,575,903
Total liabilities	7,273,611	7,920,799	5,301,431	5,000,530	12,575,042	12,921,329
<u>Deferred Inflows of Resources</u>						
	690,313	87,625	88,107	11,184	778,420	98,809
<u>Net Position</u>						
Net Investment Capital Assets	12,644,683	12,688,622	4,004,781	4,044,302	16,649,464	16,732,924
Restricted	3,847,640	3,925,899	-	-	3,847,640	3,925,899
Unrestricted	(2,663,240)	(3,151,839)	276,526	122,183	(2,386,714)	(3,029,656)
Total Net Position	\$ 13,829,083	\$ 13,462,682	\$ 4,281,307	\$ 4,166,485	\$ 18,110,390	\$ 17,629,167

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 950,625	\$ 981,117	\$ 998,853	\$ 1,028,024	\$ 1,949,478	\$ 2,009,141
Operating grants and contributions	3,519,186	3,382,791	4,481	8,954	3,523,667	3,391,745
Capital grants and contributions	316,587	365,035	-	-	316,587	365,035
General revenues:						
Property taxes and tax liens	7,292,555	6,565,593	-	-	7,292,555	6,565,593
Unrestricted grants and contributions	309,584	235,197	-	-	309,584	235,197
Other	701,727	788,041	33	-	701,760	788,041
Total Revenues	13,090,264	12,317,774	1,003,367	1,036,978	14,093,631	13,354,752
<u>Expenses</u>						
General government	1,101,642	960,028	-	-	1,101,642	960,028
Public safety	859,537	819,227	-	-	859,537	819,227
Education	8,823,616	8,338,077	-	-	8,823,616	8,338,077
Public works	1,327,101	1,369,582	-	-	1,327,101	1,369,582
Health and human services	238,581	238,164	-	-	238,581	238,164
Culture and recreation	236,018	255,243	-	-	236,018	255,243
Debt service	13,540	13,696	-	-	13,540	13,696
Water	-	-	474,376	537,286	474,376	537,286
Sewer	-	-	537,997	533,423	537,997	533,423
Total Expenses	12,600,035	11,994,017	1,012,373	1,070,709	13,612,408	13,064,726
Change in net position before transfers	490,229	323,757	(9,006)	(33,731)	481,223	290,026
Transfers	(123,828)	(480,386)	123,828	480,386	-	-
Change in net position	366,401	(156,629)	114,822	446,655	481,223	290,026
Net position, beginning of year	13,462,682	13,619,311	4,166,485	3,719,830	17,629,167	17,339,141
Net position, end of year	\$ 13,829,083	\$ 13,462,682	\$ 4,281,307	\$ 4,166,485	\$ 18,110,390	\$ 17,629,167

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$18.1 million (*total net position*). This was an increase of nearly \$0.5 million over the preceding year. An increase of less than \$0.4 million in governmental activities and an increase of over \$0.1 million in business-type activities contributed to this amount.

By far the largest portion (over \$16.6 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (almost \$3.9 million) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position is reported as a deficit

of almost \$2.4 million due primarily to the recognition of net pension liabilities from the implementation of GASB 68.

Government Activities - The Town relies to a significant extent on property taxes, which, during 2018, made up approximately 55.6% of total revenues. Property taxes were expected to increase by almost \$0.2 million in order to match the statutory increases allowed under Massachusetts Laws; however, they increased by over \$0.7 million. This was primarily due to new growth and the recognition of revenue due to favorable outcomes in outstanding ATB cases.

Operating grants and contributions which represented 26.9% of total revenues, increased slightly due to a minor increase in grant activity.

No other revenue types were significant in amount or fluctuated greatly over the prior year.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 70.0% of total expenses. The increase of \$0.5 million over the prior year was due an increase in SPED expenses due to increased enrollment. No other expense types were significant in amount or fluctuated greatly over the prior year.

Business-type Activities - Major revenue sources consist of revenue from users of the Town's sewer and water systems which were consistent with the prior year. The Town did not receive any significant capital grants and contributions during fiscal year 2018 as it had completed its State funded infrastructure project in the prior years. Sewer and Water expenses represented 100% of total business-type expenses and were also consistent with the prior year.

Government Fund Financial Analysis

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of about \$5.4 million. This represents an increase of approximately \$0.3 million over the previous year. Most of this increase was observed in the general fund, where revenues outpaced expenditures by about \$0.4 million. The Town continued to be the beneficiary of a strong economic market.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was almost \$1.7 million, while total fund balance was about \$2.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 16.7% of total general fund expenditures, while total fund balance represents approximately 20.0% of that same amount.

Furthermore, the Town reported a restricted fund balance almost \$1.6 million in the Community Preservation Act Fund; and a restricted fund balance over \$1.2 million in the School Choice Major Fund.

Proprietary Funds the Town's proprietary fund provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the sewer and water funds in total was approximately \$4.2 million.

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

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to over \$21.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an decrease of approximately \$0.2 million as annual depreciation exceeded net additions. Major capital additions included main street sidewalks, water lines work, and sewer infrastructure projects.

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

Long-term Debt At the end of the current fiscal year, the Town had total debt outstanding of about \$1.7 million; over \$0.3 million relating to government activities and over \$1.6 million relating to business-type activities.

The Town's total long-term debt decreased by approximately \$0.3 million during the fiscal year due to scheduled pay downs of principal.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$26.7 million, which is significantly in excess of the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which comprise nearly 76.9% of the Town's real estate tax base. The Town also relies to a lesser extent on its commercial and industrial real estate tax base, which in aggregate comprise approximately 20.4% of the Town's real estate tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy.
- The Towns housing market has stabilized and housing prices in this area of the country on average rose from the recent downward trend; however, housing prices are still below their 2005 peaks.
- Inflationary trends in the region are consistent with state and national indices.

The above items were considered when the Town developed its budget for fiscal year 2019.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, Town Hall 59 Main Street, Hatfield, Massachusetts 01038-9702.

TOWN OF HATFIELD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,791,896	\$ 1,060,994	\$ 6,852,890
Receivables, net:			
Property taxes	448,369	-	448,369
User fees	-	426,634	426,634
Departmental and other	380,002	-	380,002
Intergovernmental	884,633	22,773	907,406
Internal balances	44,151	(44,151)	-
Land	586,870	310,600	897,470
Construction in-process	395,174	2,797,399	3,192,573
Capital assets, net of accumulated depreciation	12,454,279	4,993,515	17,447,794
Total Assets	20,985,374	9,567,764	30,553,138
Deferred Outflows of Resources			
Related to net pension liability	807,633	103,081	910,714
Total Deferred Outflows of Resources	807,633	103,081	910,714
Liabilities			
Warrants and accounts payable	279,965	28,516	308,481
Accrued payroll and withholdings	537,519	6,604	544,123
Promissory note payable	89,932	-	89,932
Other liabilities	8,609	-	8,609
Bond anticipation notes payable	404,916	3,253,000	3,657,916
Noncurrent liabilities:			
Due within one year	197,575	232,124	429,699
Due in more than one year	5,755,095	1,781,187	7,536,282
Total Liabilities	7,273,611	5,301,431	12,575,042
Deferred Inflows of Resources			
Related to net pension liability	690,313	88,107	778,420
Total Deferred Inflows of Resources	690,313	88,107	778,420
Net Position			
Net investment in capital assets	12,644,683	4,004,781	16,649,464
Restricted for:			
Nonexpendable permanent funds	153,960	-	153,960
Community preservation	1,560,561	-	1,560,561
Federal and State grants	1,285,576	-	1,285,576
Other purposes	847,543	-	847,543
Unrestricted	(2,663,240)	276,526	(2,386,714)
Total Net Position	\$ 13,829,083	\$ 4,281,307	\$ 18,110,390

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>							
General government	\$ 1,101,642	\$ 203,809	\$ 1,276	\$ 131,948	\$ (764,609)		\$ (764,609)
Public safety	859,537	352,180	15,232	-	(492,125)		(492,125)
Education	8,823,616	293,277	3,400,301	50,000	(5,080,038)		(5,080,038)
Public works	1,327,101	55,485	-	134,639	(1,136,977)		(1,136,977)
Health and human services	238,581	12,896	87,082	-	(138,603)		(138,603)
Culture and recreation	236,018	32,978	15,295	-	(187,745)		(187,745)
Interest expense	13,540	-	-	-	(13,540)		(13,540)
Total governmental activities	12,600,035	950,625	3,519,186	316,587	(7,813,637)		(7,813,637)
<u>Business-Type Activities:</u>							
Water	474,376	535,306	-	-		\$ 60,930	60,930
Sewer	537,997	463,547	4,481	-		(69,969)	(69,969)
Total business-type activities	1,012,373	998,853	4,481	-		(9,039)	(9,039)
Total Primary Government	<u>\$ 13,612,408</u>	<u>\$ 1,949,478</u>	<u>\$ 3,523,667</u>	<u>\$ 316,587</u>	<u>(7,813,637)</u>	<u>(9,039)</u>	<u>(7,822,676)</u>
<u>General Revenues:</u>							
Property taxes					7,292,555	-	7,292,555
Motor vehicle and other excise					632,375	-	632,375
Grants and contributions not restricted to specific programs					309,584	-	309,584
Penalties and interest on taxes					26,877	-	26,877
Unrestricted investment income					42,475	33	42,508
<u>Transfers (net)</u>					<u>(123,828)</u>	<u>123,828</u>	<u>-</u>
Total general revenues and transfers					<u>8,180,038</u>	<u>123,861</u>	<u>8,303,899</u>
Change in Net Position					366,401	114,822	481,223
Net Position - Beginning					<u>13,462,682</u>	<u>4,166,485</u>	<u>17,629,167</u>
Net Position - Ending					<u>\$ 13,829,083</u>	<u>\$ 4,281,307</u>	<u>\$ 18,110,390</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	General Fund	Community Preservation Fund	School Choice Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 2,364,782	\$ 1,546,910	\$ 865,573	\$ 13,266	\$ 1,001,365	\$ 5,791,896
Receivables, net of allowance for uncollectibles:						
Real and personal property	435,553	12,816	-	-	-	448,369
Excise taxes and other	300,448	3,479	-	-	76,075	380,002
Intergovernmental	296,100	-	404,138	50,000	134,395	884,633
Due from other funds	44,151	-	-	-	-	44,151
Total Assets	<u>3,441,034</u>	<u>1,563,205</u>	<u>1,269,711</u>	<u>63,266</u>	<u>1,211,835</u>	<u>7,549,051</u>
Total Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 3,441,034</u>	<u>\$ 1,563,205</u>	<u>\$ 1,269,711</u>	<u>\$ 63,266</u>	<u>\$ 1,211,835</u>	<u>\$ 7,549,051</u>
Liabilities:						
Warrants and accounts payable	\$ 176,583	\$ 2,644	\$ 48,983	\$ 385	\$ 51,370	\$ 279,965
Accrued payroll and withholdings	512,091	-	1,035	-	24,393	537,519
Promisory note payable	-	-	-	89,932	-	89,932
Other liabilities	8,609	-	-	-	-	8,609
Bond anticipation notes payable	-	-	-	338,700	66,216	404,916
Total Liabilities	<u>697,283</u>	<u>2,644</u>	<u>50,018</u>	<u>429,017</u>	<u>141,979</u>	<u>1,320,941</u>
Deferred Inflows of Resources:						
Unavailable revenues - property taxes	435,553	12,816	-	-	-	448,369
Unavailable revenues - excise taxes and other	300,448	3,479	-	-	76,075	380,002
Total Deferred Inflows of Resources	<u>736,001</u>	<u>16,295</u>	<u>-</u>	<u>-</u>	<u>76,075</u>	<u>828,371</u>
Fund Balances:						
Nonspendable	-	-	-	-	153,960	153,960
Restricted	-	1,544,266	1,219,693	27,450	902,271	3,693,680
Committed	295,863	-	-	-	-	295,863
Assigned	33,564	-	-	-	-	33,564
Unassigned	1,678,323	-	-	(393,201)	(62,450)	1,222,672
Total Fund Balances	<u>2,007,750</u>	<u>1,544,266</u>	<u>1,219,693</u>	<u>(365,751)</u>	<u>993,781</u>	<u>5,399,739</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,441,034</u>	<u>\$ 1,563,205</u>	<u>\$ 1,269,711</u>	<u>\$ 63,266</u>	<u>\$ 1,211,835</u>	<u>\$ 7,549,051</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2018

Total Governmental Fund Balances	\$ 5,399,739
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	13,436,323
Other long-term assets are unavailable to pay current-period expenditures and are therefore unavailable within the funds	828,371
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds	117,320
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(316,139)
Capital leases payable	(243,081)
Landfill closure	(52,500)
Compensated absences	(106,847)
Net pension liability	(4,265,694)
Net other postemployment benefits liability	(968,409)
	<hr/>
Net effect of reporting long-term liabilities	(5,952,670)
Net Position of Governmental Activities	<u>\$ 13,829,083</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	General Fund	Community Preservation Fund	School Choice Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 7,048,981	\$ 145,318	\$ -	\$ -	\$ -	\$ 7,194,299
Intergovernmental	2,394,027	81,948	1,052,000	50,000	488,424	4,066,399
Motor vehicle and other excises	704,299	-	-	-	-	704,299
Licenses and permits	210,600	-	-	-	-	210,600
Departmental and other	158,452	19,819	-	-	506,159	684,430
Penalties and interest on taxes	26,877	-	-	-	-	26,877
Fines and forfeitures	18,458	-	-	-	-	18,458
Investment income	37,932	-	-	-	4,543	42,475
Contributions and donations	-	-	-	-	78,958	78,958
Total Revenues	<u>10,599,626</u>	<u>247,085</u>	<u>1,052,000</u>	<u>50,000</u>	<u>1,078,084</u>	<u>13,026,795</u>
Expenditures:						
Current:						
General government	868,766	222,455	-	50,000	61,881	1,203,102
Public safety	559,261	-	-	-	30,336	589,597
Education	4,653,197	-	1,152,610	385	645,205	6,451,397
Public works	1,050,608	-	-	154,117	142,779	1,347,504
Health and human services	179,076	-	-	-	10,716	189,792
Culture and recreation	134,719	-	-	-	59,326	194,045
Pension and fringe benefits	2,237,109	-	-	-	-	2,237,109
State and county assessments	325,893	-	-	-	-	325,893
Debt service:						
Principal	45,857	-	-	-	-	45,857
Interest	13,540	-	-	-	-	13,540
Total Expenditures	<u>10,068,026</u>	<u>222,455</u>	<u>1,152,610</u>	<u>204,502</u>	<u>950,243</u>	<u>12,597,836</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>531,600</u>	<u>24,630</u>	<u>(100,610)</u>	<u>(154,502)</u>	<u>127,841</u>	<u>428,959</u>
Other Financing Sources (Uses):						
Transfers in	177,498	-	-	117,179	73,323	368,000
Transfers out	(314,330)	-	-	-	(177,498)	(491,828)
Total Other Financing Sources (Uses)	<u>(136,832)</u>	<u>-</u>	<u>-</u>	<u>117,179</u>	<u>(104,175)</u>	<u>(123,828)</u>
Net Change in Fund Balances	394,768	24,630	(100,610)	(37,323)	23,666	305,131
Fund Balances - Beginning of year, as restated (see Note IV)	<u>1,612,982</u>	<u>1,519,636</u>	<u>1,320,303</u>	<u>(328,428)</u>	<u>970,115</u>	<u>5,094,608</u>
Fund Balances - End of year	<u>\$ 2,007,750</u>	<u>\$ 1,544,266</u>	<u>\$ 1,219,693</u>	<u>\$ (365,751)</u>	<u>\$ 993,781</u>	<u>\$ 5,399,739</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 305,131**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items:

Capital outlays	612,989	
Depreciation expense	(759,768)	
Net effect of reporting capital assets		(146,779)

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

Repayments of capital lease obligations	146,966	
Repayments of debt obligations	45,857	
Net effect of reporting long-term debt		192,823

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

63,469

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

Landfill closure	5,250	
Compensated absences	(10,623)	
Pension benefits	(42,870)	
Net effect of reporting long-term liabilities		(48,243)

Change in Net Position of Governmental Activities **\$ 366,401**

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	Business-Type Activities		
	Water	Sewer	Total Enterprise Funds
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,060,994	\$ -	\$ 1,060,994
User charges and other receivables (net):	216,538	210,096	426,634
Intergovernmental receivables	-	22,773	22,773
Total current assets	<u>1,277,532</u>	<u>232,869</u>	<u>1,510,401</u>
Noncurrent assets:			
Land	235,554	75,046	310,600
Construction in-process	2,772,379	25,020	2,797,399
Capital assets (net of depreciation)	1,864,027	3,129,488	4,993,515
Total noncurrent assets	<u>4,871,960</u>	<u>3,229,554</u>	<u>8,101,514</u>
Total Assets	<u>6,149,492</u>	<u>3,462,423</u>	<u>9,611,915</u>
Deferred Outflows of Resources	<u>44,718</u>	<u>58,363</u>	<u>103,081</u>
Liabilities:			
Current liabilities:			
Warrants and accounts payable	5,486	23,030	28,516
Accrued payroll and withholdings	4,138	2,466	6,604
Due to other funds	-	44,151	44,151
Bond anticipation notes payable	2,740,000	513,000	3,253,000
Compensated absences	1,942	3,143	5,085
Bonds and notes payable	98,139	128,900	227,039
Total current liabilities	<u>2,849,705</u>	<u>714,690</u>	<u>3,564,395</u>
Noncurrent liabilities:			
Compensated absences	5,826	9,429	15,255
Net other postemployment benefits liability	29,833	35,139	64,972
Net pension liability	236,190	308,256	544,446
Bonds and notes payable	1,094,214	62,300	1,156,514
Total noncurrent liabilities	<u>1,366,063</u>	<u>415,124</u>	<u>1,781,187</u>
Total Liabilities	<u>4,215,768</u>	<u>1,129,814</u>	<u>5,345,582</u>
Deferred Inflows of Resources	<u>38,222</u>	<u>49,885</u>	<u>88,107</u>
Net Position:			
Net investment in capital assets	1,477,497	2,527,284	4,004,781
Unrestricted	<u>462,723</u>	<u>(186,197)</u>	<u>276,526</u>
Total Net Position	<u>\$ 1,940,220</u>	<u>\$ 2,341,087</u>	<u>\$ 4,281,307</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		Total Enterprise Funds
	Water	Sewer	
Operating Revenues:			
Charges for services	\$ 527,761	\$ 460,598	\$ 988,359
Other	7,545	2,949	10,494
Total Operating Revenues	<u>535,306</u>	<u>463,547</u>	<u>998,853</u>
Operating Expenses:			
Operating costs	294,487	393,818	688,305
Depreciation	103,881	132,319	236,200
Total Operating Expenses	<u>398,368</u>	<u>526,137</u>	<u>924,505</u>
Total Operating Income (Loss)	<u>136,938</u>	<u>(62,590)</u>	<u>74,348</u>
Nonoperating Revenues (Expenses):			
Intergovernmental	-	4,481	4,481
Investment income	16	17	33
Interest expense	(76,008)	(11,860)	(87,868)
Total Nonoperating Revenues (Expenses)	<u>(75,992)</u>	<u>(7,362)</u>	<u>(83,354)</u>
Income (Loss) Before Capital Contributions and Transfers	60,946	(69,952)	(9,006)
Transfers:			
Transfers in	5,311	118,517	123,828
Transfers, net	<u>5,311</u>	<u>118,517</u>	<u>123,828</u>
Change in Net Position	66,257	48,565	114,822
Beginning of Year	<u>1,873,963</u>	<u>2,292,522</u>	<u>4,166,485</u>
Ending of Year	<u>\$ 1,940,220</u>	<u>\$ 2,341,087</u>	<u>\$ 4,281,307</u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	Business-Type Activities		Total Enterprise Funds
	Water	Sewer	
Cash Flows from Operating Activities:			
Receipts from users	\$ 502,509	\$ 418,612	\$ 921,121
Receipts from other operating revenues	7,545	2,949	10,494
Payments to employees	(112,813)	(126,467)	(239,280)
Payments to vendors	(173,400)	(238,262)	(411,662)
Net Cash Provided by Operating Activities	223,841	56,832	280,673
Cash Flows from Noncapital Financing Activities:			
Operating grants	-	22,632	22,632
Interfund borrowing	-	44,151	44,151
Transfers in	5,311	118,517	123,828
Net Cash Provided by Noncapital Financing Activities	5,311	185,300	190,611
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(109,277)	(127,288)	(236,565)
Proceeds from the issuance of bonds and notes	740,000	-	740,000
Principal payments on bonds and notes	(198,139)	(201,400)	(399,539)
Interest payments on bonds and notes	(76,008)	(7,379)	(83,387)
Net Cash Used in Capital and Related Financing Activities	356,576	(336,067)	20,509
Net Change in Cash and Cash Equivalents	585,744	(93,918)	491,826
Cash and Cash Equivalents:			
Beginning of the year	475,250	93,918	569,168
End of the year	\$ 1,060,994	\$ -	\$ 1,060,994
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating Income (Loss)	\$ 136,938	\$ (62,590)	\$ 74,348
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	103,881	132,319	236,200
Changes in assets and liabilities:			
Receivables and deferred outflows of resources	(25,252)	(41,986)	(67,238)
Accounts payable and accrued expenses	8,274	29,089	37,363
Net Cash Provided by Operating Activities	\$ 223,841	\$ 56,832	\$ 280,673
Noncash capital and financing activities:			
Intergovernmental subsidies of debt service	\$ -	\$ 4,481	\$ 4,481

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	Private Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 136,857	\$ 116,275
Total Assets	<u>136,857</u>	<u>116,275</u>
Liabilities:		
Warrants payable	-	3,955
Agency liabilities	<u>-</u>	<u>112,320</u>
Total Liabilities	<u>-</u>	<u>116,275</u>
Net Position:		
Held in trust for private purposes	<u>136,857</u>	<u>-</u>
Total Net Position	<u><u>\$ 136,857</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

	Private Purpose Trust Funds
	<hr/>
Additions:	
Investment income	\$ 718
	<hr/>
Total Additions	718
	<hr/>
Deductions:	
Educational scholarships	3,272
	<hr/>
Total Deductions	3,272
	<hr/>
Change in Net Position	(2,554)
Net Position - Beginning of year	139,411
	<hr/>
Net Position - End of year	\$ 136,857
	<hr/> <hr/>

See accompanying notes to basic financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

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

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Hatfield is located in Hampshire County, in the northwestern area of Massachusetts and was incorporated as a town in 1670. The governing structure utilizes an open town meeting form, with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve staggered three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, disposal of rubbish and recycling, public education, water and sewer services, street maintenance, certain programs servicing the aging and veteran populations, and parks and recreational services. The water and sewer services are each funded almost entirely with user charges and are provided via connections to Town owned facilities.

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are proprietary funds. Under this method, 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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The government reports the following major governmental funds:

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

Community Preservation Act Fund – is used to account for funds received in accordance with the Massachusetts Community Preservation Act. Funds are used to acquire or develop open space and recreational facilities, preservation of historic resources and affordable housing.

School Choice Fund – is used to account for funds received from the Commonwealth in accordance the inter-district School Choice program as authorized under MGL c.76, s.12B. These funds are provided from assessments to other school districts wherein certain families have optioned to send their children to the Hatfield Public Schools, outside of their residential school district. Such monies are available for expenditure by the Hatfield School Committee without further appropriation.

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Water Enterprise Fund— accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Sewer Enterprise Fund— accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

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

The Town reports the following fiduciary funds:

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

Agency Fund— is used to account for assets held in a purely custodial capacity. This fund is primarily used for developer escrow funds. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

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

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

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

Receivables— Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy. The Town is permitted to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes.

User charges receivables represent amounts billed for water and sewer usage. Water and sewer charges are billed semi-annual and are subject to penalties and interest if not paid by the respective due date. The Town is authorized to take water and sewer fees into tax title fourteen days subsequent to the mailing of a demand for payment for the delinquent taxes.

Real estate taxes, water and sewer user fees are secured through a lien process within sixty days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

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

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

Buildings and improvements	10-40 years
Machinery and equipment	3-15 years
Vehicles	3-15 years
Infrastructure	20-50 years

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

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

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

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused sick and vacation benefits into subsequent fiscal years. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

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

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

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

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

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

Nonexpendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Community preservation represents assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing.

Federal and State grants represent assets that have restrictions placed on them from federal and state granting agencies.

Other purposes represent assets that are restricted by grantors, donors and state laws for specific governmental programs and uses.

Fund Equity –In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily to the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

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

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

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

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

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

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

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

	General Fund	Community Preservation Fund	School Choice Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:						
Nonexpendable trust funds	\$ -	\$ -	\$ -	\$ -	\$ 153,960	\$ 153,960
Restricted:						
General government	-	-	-	-	385,103	385,103
Public safety	-	-	-	-	179,090	179,090
Education	-	-	1,219,693	-	170,816	1,390,509
Public works	-	-	-	-	10,790	10,790
Health and human services	-	1,544,266	-	-	37,103	1,581,369
Culture and recreation	-	-	-	-	109,366	109,366
Capital outlay	-	-	-	27,450	-	27,450
Other purposes	-	-	-	-	10,003	10,003
Committed:						
Town meeting articles	295,863	-	-	-	-	295,863
Assigned:						
Purchase orders	30,054	-	-	-	-	30,054
Subsequent years' budget	3,510	-	-	-	-	3,510
Unassigned	1,678,323	-	-	(393,201)	(62,450)	1,222,672
	<u>\$ 2,007,750</u>	<u>\$ 1,544,266</u>	<u>\$ 1,219,693</u>	<u>\$ (365,751)</u>	<u>\$ 993,781</u>	<u>\$ 5,399,739</u>

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$297,992 at June 30, 2018 and is reported as unassigned fund balance in the general fund.

The Town maintains a capital stabilization fund which may be used for any municipal capital purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$34,437 at June 30, 2018 and is reported as unassigned fund balance in the general fund.

The Town maintains a Town Hall stabilization fund which may be used for any Town Hall capital purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$67,982 at June 30, 2018 and is reported as unassigned fund balance in the general fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed; these are more commonly referred to as articles in the Commonwealth of Massachusetts. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$30,054 of encumbrances from normal purchasing activity in the general fund as assigned and \$295,863 of encumbrances from town meeting articles in the general fund as committed.

E. Excess of Expenditures Over Appropriations and Deficits

During fiscal year 2018, expenditures exceeded appropriations in the General Fund for snow and ice costs by \$85,267. This deficit will be funded through available funds in fiscal year 2019.

The Town also incurred individual fund deficits totaling \$393,201 reported in the capital projects major fund and \$62,450 reported in the non-major governmental funds. These deficits will be funded through available funds and bond proceeds during future fiscal years.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$3,860,087 and the bank balance was \$4,090,415. Of the Town's bank balance, \$3,879,701 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing for bankruptcy, the Town might not be able to recover the full amount of its principal investment and/or investment earnings. The Town has limited investment policies related to custodial credit risk. The Town's investment in the MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

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

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

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

Investments by fair value level	6/30/2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments measured at amortized costs				
State investment pool (MMDT)	\$ 3,245,935			
Total investments	\$ 3,245,935			

The State Treasurer’s investment pool (MMDT) is valued at amortized cost. The MMDT’s investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized cost not approximate the fair value of the pool.

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

Concentration of Credit Risk – The Town places a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town maintained 100% of its investments in the MMDT.

Credit Risk – The Town has not adopted a formal policy related to credit risk. Investments in the MMDT are unrated.

B. Receivables

Receivables as of year-end for the Town's individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 435,553	\$ -	\$ 435,553
Tax liens and foreclosures	252,662	-	252,662
Motor vehicle and other excise taxes	51,265	-	51,265
Community Preservation surcharges	12,816	-	12,816
Ambulance fees	161,470	(85,395)	76,075
Intergovernmental	884,633	-	884,633
Total	<u>\$ 1,798,399</u>	<u>\$ (85,395)</u>	<u>\$ 1,713,004</u>

Receivables as of year-end for the Town's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user charges	\$ 186,474	\$ -	\$ 186,474
Water liens	30,064	-	30,064
Sewer user charges	171,460	-	171,460
Sewer liens	38,636	-	38,636
Intergovernmental	22,773	-	22,773
Total	<u>\$ 449,407</u>	<u>\$ -</u>	<u>\$ 449,407</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental Funds	Net Amount
Receivable type:			
Real estate and personal property taxes	\$ 435,553	\$ -	\$ 435,553
Tax liens and foreclosures	249,183	3,479	252,662
Motor vehicle	51,265	-	51,265
Community preservation surcharges	-	12,816	12,816
Ambulance fees	-	76,075	76,075
Total	<u>\$ 736,001</u>	<u>\$ 92,370</u>	<u>\$ 828,371</u>

C. Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 586,870	\$ -	\$ -	\$ 586,870
Construction in process	-	395,174	-	395,174
Total capital assets not being depreciated	586,870	395,174	-	982,044
Capital assets being depreciated:				
Buildings and improvements	17,244,000	29,483	-	17,273,483
Equipment and vehicles	3,818,836	45,553	-	3,864,389
Infrastructure	6,539,263	142,779	-	6,682,042
Total capital assets being depreciated	27,602,099	217,815	-	27,819,914
Less accumulated depreciation for:				
Buildings and improvements	(8,608,853)	(404,060)	-	(9,012,913)
Equipment and vehicles	(2,843,731)	(138,014)	-	(2,981,745)
Infrastructure	(3,153,283)	(217,694)	-	(3,370,977)
Total accumulated depreciation	(14,605,867)	(759,768)	-	(15,365,635)
Total capital assets being depreciated, net	12,996,232	(541,953)	-	12,454,279
Total governmental activities capital assets, net	\$ 13,583,102	\$ (146,779)	\$ -	\$ 13,436,323

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 310,600	\$ -	\$ -	\$ 310,600
Construction in process	2,663,102	134,297	-	2,797,399
Total capital assets not being depreciated	2,973,702	134,297	-	3,107,999
Capital assets being depreciated:				
Buildings and improvements	99,940	-	-	99,940
Equipment and vehicles	721,015	47,748	-	768,763
Infrastructure	13,018,474	54,520	-	13,072,994
Total capital assets being depreciated	13,839,429	102,268	-	13,941,697
Less accumulated depreciation for:				
Buildings and improvements	(16,657)	(6,662)	-	(23,319)
Equipment and vehicles	(245,551)	(44,710)	-	(290,261)
Infrastructure	(8,449,774)	(184,828)	-	(8,634,602)
Total accumulated depreciation	(8,711,982)	(236,200)	-	(8,948,182)
Total capital assets being depreciated, net	5,127,447	(133,932)	-	4,993,515
Total business-type activities capital assets, net	<u>\$ 8,101,149</u>	<u>\$ 365</u>	<u>\$ -</u>	<u>\$ 8,101,514</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 235,554	\$ -	\$ -	\$ 235,554
Construction in process	2,663,102	109,277	-	2,772,379
Total capital assets not being depreciated	2,898,656	109,277	-	3,007,933
Capital assets being depreciated:				
Infrastructure	3,791,607	-	-	3,791,607
Machinery and equipment	109,977	-	-	109,977
Total capital assets being depreciated	3,901,584	-	-	3,901,584
Less accumulated depreciation for:				
Machinery and equipment	(13,364)	(5,931)	-	(19,295)
Infrastructure	(1,920,312)	(97,950)	-	(2,018,262)
Total accumulated depreciation	(1,933,676)	(103,881)	-	(2,037,557)
Total capital assets being depreciated, net	1,967,908	(103,881)	-	1,864,027
Total Water capital assets, net	<u>\$ 4,866,564</u>	<u>\$ 5,396</u>	<u>\$ -</u>	<u>\$ 4,871,960</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities: Sewer</i>				
Capital assets not being depreciated:				
Land	\$ 75,046	\$ -	\$ -	\$ 75,046
Construction in process	-	25,020	-	25,020
Total capital assets not being depreciated	75,046	25,020	-	100,066
Capital assets being depreciated:				
Buildings and improvements	99,940	-	-	99,940
Equipment and vehicles	611,038	47,748	-	658,786
Infrastructure	9,226,867	54,520	-	9,281,387
Total capital assets being depreciated	9,937,845	102,268	-	10,040,113
Less accumulated depreciation for:				
Buildings and improvements	(16,657)	(6,662)		(23,319)
Equipment and vehicles	(232,187)	(38,779)	-	(270,966)
Infrastructure	(6,529,462)	(86,878)	-	(6,616,340)
Total accumulated depreciation	(6,778,306)	(132,319)	-	(6,910,625)
Total capital assets being depreciated, net	3,159,539	(30,051)	-	3,129,488
Total Sewer capital assets, net	\$ 3,234,585	\$ (5,031)	\$ -	\$ 3,229,554

Depreciation expense was charged to the following functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 35,292	Water	\$ 103,881
Public safety	72,476	Sewer	132,319
Education	350,924		<u>\$ 236,200</u>
Public works	289,130		
Health and human services	7,953		
Culture and recreation	3,993		
	<u>\$ 759,768</u>		

D. Interfund Receivables, Payables and Transfers

The interfund receivable and payable between the general fund and the sewer enterprise fund totaling \$44,151 at June 30, 2018 is expected to be paid back from available sewer revenues in fiscal year 2019.

The composition of interfund transfers for the fiscal year ended June 30, 2018 is as follows:

Transfers Out	Transfers In					Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund	\$ -	\$ 117,179	\$ 73,323	\$ 5,311	\$ 118,517	\$ 314,330 ⁽¹⁾
Nonmajor Governmental Funds	177,498	-	-	-	-	177,498 ⁽²⁾
Total	<u>\$ 177,498</u>	<u>\$ 117,179</u>	<u>\$ 73,323</u>	<u>\$ 5,311</u>	<u>\$ 118,517</u>	<u>\$ 491,828</u>

(1) Transfers to capital projects fund for debt paydowns and capital outlays; transfers to nonmajor governmental funds for public safety and town celebrations purposes; transfers to water enterprise and sewer enterprise to supplement operations.

(2) Transfers to general fund to supplement operating budgets and close out surplus funds.

E. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law.

Temporary notes outstanding at June 30, 2018, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.80%	Matured	\$ 302,800	\$ -	\$ (302,800)	\$ -
BAN	1.24%	7/13/18	-	238,700	-	238,700
BAN	1.24%	7/13/18	-	189,932	-	189,932
Note	1.34%	7/13/18	-	66,216	-	66,216
Total Governmental Notes			<u>302,800</u>	<u>494,848</u>	<u>(302,800)</u>	<u>494,848</u>
BAN	0.80%	Matured	2,487,000	-	(2,487,000)	-
BAN	0.83%	Matured	200,000	-	(200,000)	-
BAN	1.24%	7/13/18	-	2,513,000	-	2,513,000
BAN	1.25%	7/13/18	-	740,000	-	740,000
Total Business-Type Notes			<u>2,687,000</u>	<u>3,253,000</u>	<u>(2,687,000)</u>	<u>3,253,000</u>
Total Notes Payable			<u>\$ 2,989,800</u>	<u>\$ 3,747,848</u>	<u>\$ (2,989,800)</u>	<u>\$ 3,747,848</u>

Temporary notes were issued within the governmental funds for building renovations, fire tanker, land and related improvements; as well as, business-type activities for water and sewer infrastructure construction and repair projects.

F. Long-Term Liability Obligations

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

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<u><i>Governmental Activities:</i></u>					
Bond and note indebtedness	\$ 361,996	\$ -	\$ (45,857)	\$ 316,139	\$ 45,857
Capital leases	390,047	-	(146,966)	243,081	119,756
Landfill closure	57,750	-	(5,250)	52,500	5,250
Compensated absences	96,224	34,679	(24,056)	106,847	26,712
Net other postemployment benefits liability	968,409	-	-	968,409	-
Net pension liability	4,635,876	1,340,410	(1,710,592)	4,265,694	-
Total Governmental Activities	\$ 6,510,302	\$ 1,375,089	\$ (1,932,721)	\$ 5,952,670	\$ 197,575
<u><i>Business-Type Activities - Water:</i></u>					
Bond and note debt	\$ 1,107,492	\$ -	\$ (98,139)	\$ 1,192,353	\$ 98,139
Compensated absences	7,158	2,400	(1,790)	7,768	1,942
Net other postemployment benefits liability	29,833	-	-	29,833	-
Net pension liability	256,687	74,217	(94,714)	236,190	-
Total Water	1,401,170	76,617	(194,643)	1,466,144	100,081
<u><i>Business-Type Activities - Sewer:</i></u>					
Bond and note debt	172,700	-	(127,400)	191,200	128,900
Compensated absences	15,554	907	(3,889)	12,572	3,143
Net other postemployment benefits liability	35,139	-	-	35,139	-
Net pension liability	335,007	96,864	(123,615)	308,256	-
Total Sewer	558,400	97,771	(254,904)	547,167	132,043
Total Business-Type Activities	\$ 1,959,570	\$ 174,388	\$ (449,547)	\$ 2,013,311	\$ 232,124
Total Long-term Obligations	\$ 8,469,872	\$ 1,549,477	\$ (2,382,268)	\$ 7,965,981	\$ 429,699

The governmental activities liabilities will be liquidated by the general fund. The business-type activities liabilities will be liquidated by the sewer and water enterprise fund.

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

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u><i>Governmental Activities:</i></u>					
State House Note	2.12%	\$ 31,825	\$ -	\$ (10,800)	\$ 21,025
State House Note	3.20%	322,500	-	(32,500)	290,000
Massachusetts Clean Water Trust	0.00%	7,671	-	(2,557)	5,114
Total Governmental Activities		\$ 361,996	\$ -	\$ (45,857)	\$ 316,139
<u><i>Business-Type Activities - Water:</i></u>					
USDA Loan	5.00%	\$ 1,107,492	\$ -	\$ (61,539)	\$ 1,045,953
State House Note	2.12%	183,000	-	(36,600)	146,400
Total Water Activities		1,290,492	-	(98,139)	1,192,353
<u><i>Business-Type Activities - Sewer:</i></u>					
Massachusetts Clean Water Trust	2.00 - 5.00%	172,700	-	(85,100)	87,600
State House Note	2.12%	145,900	-	(42,300)	103,600
Total Sewer Activities		318,600	-	(127,400)	191,200
Total Business-Type Activities, net		\$ 1,609,092	\$ -	\$ (225,539)	\$ 1,383,553

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

<i>Governmental Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 45,857	\$ -	\$ 45,857	\$ 9,940	\$ (214)	\$ 9,726	\$ 55,583
2020	45,282	-	45,282	8,527	(70)	8,457	53,739
2021	32,500	-	32,500	7,200	-	7,200	39,700
2022	32,500	-	32,500	6,160	-	6,160	38,660
2023	32,500	-	32,500	5,120	-	5,120	37,620
2024-2027	127,500	-	127,500	10,080	-	10,080	137,580
Total	<u>\$ 316,139</u>	<u>\$ -</u>	<u>\$ 316,139</u>	<u>\$ 47,027</u>	<u>\$ (284)</u>	<u>\$ 46,743</u>	<u>\$ 362,882</u>

<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 98,139	\$ -	\$ 98,139	\$ 55,402	\$ -	\$ 55,402	\$ 153,541
2020	98,139	-	98,139	51,549	-	51,549	149,688
2021	98,139	-	98,139	47,696	-	47,696	145,835
2022	98,139	-	98,139	43,843	-	43,843	141,982
2023	61,539	-	61,539	39,990	-	39,990	101,529
2024-2028	307,695	-	307,695	153,795	-	153,795	461,490
2029-2033	307,695	-	307,695	76,870	-	76,870	384,565
2034-2037	122,868	-	122,868	9,209	-	9,209	132,077
Total	<u>\$ 1,192,353</u>	<u>\$ -</u>	<u>\$ 1,192,353</u>	<u>\$ 478,354</u>	<u>\$ -</u>	<u>\$ 478,354</u>	<u>\$ 1,670,707</u>

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2019	\$ 128,900	\$ (22,773)	\$ 106,127	\$ 4,386	\$ (2,190)	\$ 2,196	\$ 108,323
2020	30,300	-	30,300	1,321	-	1,321	31,621
2021	16,000	-	16,000	678	-	678	16,678
2022	16,000	-	16,000	339	-	339	16,339
Total	<u>\$ 191,200</u>	<u>\$ (22,773)</u>	<u>\$ 168,427</u>	<u>\$ 6,724</u>	<u>\$ (2,190)</u>	<u>\$ 4,534</u>	<u>\$ 172,961</u>

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2018	\$ 227,039	\$ (22,773)	\$ 204,266	\$ 59,788	\$ (2,190)	\$ 57,598	\$ 261,864
2019	128,439	-	128,439	52,870	-	52,870	181,309
2020	114,139	-	114,139	48,374	-	48,374	162,513
2021	114,139	-	114,139	44,182	-	44,182	158,321
2022	61,539	-	61,539	39,990	-	39,990	101,529
2023-2027	307,695	-	307,695	153,795	-	153,795	461,490
2028-2032	307,695	-	307,695	76,870	-	76,870	384,565
2033-2037	122,868	-	122,868	9,209	-	9,209	132,077
Total	<u>\$ 1,383,553</u>	<u>\$ (22,773)</u>	<u>\$ 1,360,780</u>	<u>\$ 485,078</u>	<u>\$ (2,190)</u>	<u>\$ 482,888</u>	<u>\$ 1,843,668</u>

MCWT Loan Subsidies – The Town has entered into loan agreements with the Massachusetts Clean Water Trust (the MCWT). It is expected that the Town will be subsidized by the MCWT on a periodic basis for principal in the amount of \$22,773 and interest in the amount of \$2,474 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2018, the Town had authorized, and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
<i>Governmental:</i>	
School roofs and windows	\$ 2,147,019
Repairs CT river	24,000
Town Hall Phase II	1,000,000
COA kitchen and ramp	325,000
Other	36,318
Total Authorized and Unissued	<u><u>\$ 3,532,337</u></u>

G. Capital Leases

The Town has entered into long-term leases for the purchase of various vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	<u>Amount</u>
Vehicles	\$ 1,317,836
Less: accumulated depreciation	<u>(1,078,117)</u>
Total	<u><u>\$ 239,719</u></u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2018, are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2019	\$ 127,000
2020	127,000
Total minimum lease payments	<u>254,000</u>
Less: amounts representing interest	<u>(10,919)</u>
Present value of minimum lease payments	<u><u>\$ 243,081</u></u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Hampshire County Retirement System (HCRS), a multiple-employer defined benefit pension plan established under MGL Chapter 32 and is administered by the Hampshire County Retirement Board (HCRB). Standalone financial statements for the year ended December 31, 2017 were issued and may be obtained by writing to the Hampshire County Retirement System, 99 Industrial Drive, Suite 2, Northampton, MA 01060.

Current membership in the Retirement System as of December 31, 2017, was as follows:

Retirees and beneficiaries currently receiving benefits	1,278
Active plan members	2,016
Inactive plan members	<u>660</u>
Total	<u>3,954</u>

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

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

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

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

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

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

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

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2017.

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

The Town contributed \$552,436 to the Retirement System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 27.8% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$4,810,140 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation. However, since the last actuarial valuation, the Retirement System decreased the discount rate used in the actuarial valuation from 7.50% to 7.45%.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 2.590% at December 31, 2017, which was consistent with the proportion measured at January 1, 2018.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2017, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment.

Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$600,777 in pension expense in the statement of activities in fiscal year 2018.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 263,001	\$ 467,510
Changes of assumptions	261,475	220,769
Change in proportion differences	386,238	12,080
Difference between expected and actual experience	-	78,061
	<u>\$ 910,714</u>	<u>\$ 778,420</u>

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

Year ended June 30

2019	\$ 137,668
2020	99,355
2021	(33,488)
2022	(96,776)
2023	14,265
2024	11,270
	<u>\$ 132,294</u>

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

Actuarial cost method:	Individual Entry Age Normal Cost Method
Amortization method:	Payments increase at 4.0% per year
Investment rate of return:	7.45%
Projected salary increases:	6.0% trending to 4.25%
Inflation rate:	3%

Cost of living adjustments:	3% of \$13,000
Mortality rates:	Based upon the RP-2000 Table with full generational mortality improvement using scale BB with base year 2009.
Disabled life mortality:	Based upon the RP-2000 Table with full generational mortality improvement using scale BB with base year 2012.

The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.00%	0.00%
Large Cap Equities	11.00%	4.37%
Small/Mid Cap Equities	6.00%	4.61%
International Equities	13.50%	4.85%
Emerging Equities	7.00%	6.31%
Core Bonds	7.00%	0.86%
High-Yield Bonds	5.00%	2.67%
Global Bonds	3.00%	-0.24%
EMD (Local Currency)	6.00%	3.40%
Bank Loans	4.00%	2.91%
Private Equity	10.00%	6.31%
Private Debt	3.00%	4.85%
Real Estate (Core)	10.00%	3.40%
Hedge Funds	5.00%	3.40%
Global Asset Allocation	7.50%	0.00%
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension was 7.45%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.45% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current rate:

	1% Decrease <u>(6.45%)</u>	Current Discount <u>(7.45 %)</u>	1% Increase <u>(8.45%)</u>
Town’s proportionate share of the net pension liability	\$ 6,315,387	\$ 4,810,140	\$ 3,542,199

B. Massachusetts Teachers’ Retirement System

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

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

For the year ended June 30, 2018, the Commonwealth contributed \$603,824 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.048872%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town’s proportionate share of the following:

	Commonwealth <u>Portion</u>	Paid (or assumed) On Behalf <u>of the Town</u>	Town <u>Portion</u>
Net pension liability	\$ 11,184,601	\$ (11,184,601)	\$ —
Pension expense	1,167,369	(1,167,369)	—

The Town has recognized intergovernmental revenue and pension expense of \$1,167,369 associated with this arrangement.

C. Risk Financing

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

The Town is a member of the Hampshire County Group Insurance Trust, which is a health insurance risk-pool consisting of over 60 governmental units. The Trust offers a variety of

premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Trust its required premiums and, in the event the group is terminated, its proportionate share of a deficit, should one exist.

D. Commitments and Contingencies

General - The Town is party to certain other legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2018, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018.

Grant Compliance - Amounts received 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.

Arbitrage - The Town is subject to Federal arbitrage laws regarding its long-term borrowing agreements. Failure to comply with the rules could result in penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

E. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed, and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$52,500 has been recorded as a governmental activities' liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

F. Implementation of New GASB Pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018. The Town has not implemented the provisions of GASB No. 75 which has resulted in a modified opinion on these financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this

Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

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

Future Implementations –

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

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

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

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

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

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting

periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatements

Restatements were made to the Town's previously reported fund balances at June 30, 2017 as follows:

	General Fund	School Choice	Capital Projects	Nonmajor Governmental
Prior year as presented	\$ 1,357,193	\$ 1,340,856	\$ -	\$ 876,923
Reclassify town meeting articles	240,228	-	(235,086)	(5,142)
Reclassify special revenue funds	13,517	-	-	(13,517)
Reclassify capital projects	2,044	(20,553)	(93,342)	111,851
As restated	<u>\$ 1,612,982</u>	<u>\$ 1,320,303</u>	<u>\$ (328,428)</u>	<u>\$ 970,115</u>

TOWN OF HATFIELD, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018**

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

	<u>2018</u>	<u>Year Ended June 30, 2017</u>	<u>2016</u>	<u>2015</u>
liability (asset)	2.590%	2.378%	2.393%	2.290%
Town's proportionate share of the net pension liability (asset)	\$ 4,810,140	\$ 5,227,570	\$ 4,969,077	\$ 4,271,266
Town's covered-employee payroll	\$ 1,988,125	\$ 1,876,755	\$ 1,936,084	\$ 1,873,935
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-payroll	241.9%	278.5%	256.7%	227.9%
Plan fiduciary net position as a percentage of the total pension liability	63.1%	55.6%	55.3%	58.1%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

	<u>2018</u>	<u>Year Ended June 30, 2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 552,436	\$ 468,350	\$ 445,693	\$ 399,206
Contributions in relation to the actuarially determined contribution	<u>552,436</u>	<u>468,350</u>	<u>445,693</u>	<u>399,206</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-payroll	\$ 1,988,125	\$ 1,876,755	\$ 1,936,084	\$ 1,873,935
Contributions as a percentage of covered-payroll	27.8%	25.0%	23.0%	21.3%

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

See accompanying independent auditors' report.

TOWN OF HATFIELD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

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

	<u>2017</u>	<u>Year Ended June 30,</u> <u>2016</u>	<u>2015</u>	<u>2014</u>
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930	\$ 937,379

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

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

See accompanying independent auditor's report.

TOWN OF HATFIELD, MASSACHUSETTS

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

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Positive
	Budget	Budget	Amounts		Adjusted	(Negative)
REVENUES						
Real estate and personal property taxes, net	\$ 7,247,553	\$ 7,197,923	\$ 6,900,381	\$ -	\$ 6,900,381	\$ (297,542)
Intergovernmental	1,235,371	1,235,371	1,226,658	-	1,226,658	(8,713)
Motor vehicle and other excises	592,706	592,706	704,299	-	704,299	111,593
Departmental and other revenue	104,256	104,256	158,452	-	158,452	54,196
License and permits	20,000	20,000	210,600	-	210,600	190,600
Penalties and interest on taxes	29,788	29,788	26,877	-	26,877	(2,911)
Fines and forfeitures	30,000	30,000	18,458	-	18,458	(11,542)
Investment income	16,000	16,000	28,701	-	28,701	12,701
Total Revenues	9,275,674	9,226,044	9,274,426	-	9,274,426	48,382
EXPENDITURES						
General government	975,366	966,950	873,766	61,607	935,373	31,577
Public safety	644,730	659,500	559,261	54,260	613,521	45,979
Education	5,259,615	5,258,376	5,115,945	120,676	5,236,621	21,755
Public works	1,082,149	1,085,011	1,060,608	89,374	1,149,982	(64,971)
Health and human services	182,209	188,772	179,076	-	179,076	9,696
Culture and recreation	134,199	135,550	134,719	-	134,719	831
State and county tax assessments	387,978	387,978	325,893	-	325,893	62,085
Pension and other fringe Benefits	1,131,209	1,146,209	1,141,011	-	1,141,011	5,198
Debt service	147,412	147,412	121,865	-	121,865	25,547
Total Expenditures	9,944,867	9,975,758	9,512,144	\$ 325,917	9,838,061	137,697
OTHER FINANCING SOURCES (USES)						
Transfers in	72,072	273,384	463,981		463,981	190,597
Transfers out	(134,100)	(400,003)	(402,101)		(402,101)	(2,098)
Total Other Financing Sources (Uses)	(62,028)	(126,619)	61,880		61,880	188,499
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(731,221)	(876,333)	(175,838)		(501,755)	374,578
Other budget items:						
Prior year appropriation deficits	-	(200,212)				
Free cash appropriations	236,200	580,690				
Prior year encumbrances and carryovers	502,656	502,656				
Miscellaneous items	(7,635)	(6,801)				
Total other budget items	731,221	876,333				
Net budget	\$ -	\$ -				

See accompanying notes to financial statements.

TOWN OF HATFIELD, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2018, the Town did not make any material supplemental budgetary appropriations during the year.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. The difference between the budgetary basis of accounting and GAAP is presented in the table below:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 9,274,426
Stabilization revenue	\$ -	\$ 9,231	9,231
Change in recording tax refunds payable	148,600	-	148,600
On behalf payments	1,167,369	-	1,167,369
Revenues on a GAAP basis	<u>\$ 1,167,369</u>	<u>\$ -</u>	<u>\$ 10,599,626</u>
Expenditures on a budgetary basis			\$ 9,512,144
Expenditure recognition	\$ (462,748)	\$ -	(462,748)
On behalf payments	1,167,369	-	1,167,369
Reclass of enterprise indirect costs to expenditures	-	(148,739)	(148,739)
Expenditures on a GAAP basis	<u>\$ 704,621</u>	<u>\$ (148,739)</u>	<u>\$ 10,068,026</u>
Other financing sources (uses) on a budgetary basis			\$ 61,880
Transfer adjustment for stabilization funds	\$ -	\$ (49,973)	(49,973)
Reclass of enterprise indirect costs to expenditures	-	(148,739)	(148,739)
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ (148,739)</u>	<u>\$ (136,832)</u>