

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

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

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LYNCHMARINI & ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Marion, 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 Marion, Massachusetts (the Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

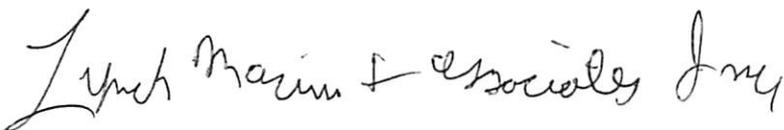
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages v to xi, and the, schedule of funding progress - other postemployment benefits, schedule of changes in the Town's net OPEB liability and related ratios, and schedule of contributions – other postemployment benefits, , schedules of pension contributions and budgetary comparison information, on pages 50 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the Town of Marion, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Marion, Massachusetts' internal control over financial reporting and compliance.



Norwell, Massachusetts
June 20, 2018



LYNCHMARINI & ASSOCIATES INC.

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

To the Honorable Board of Selectmen
Town of Marion, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Massachusetts, (the Town) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Marion, Massachusetts' basic financial statements and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the following paragraph, the combination of which that we considered to be a significant deficiency.

Upon commencement of the audit, we noted significant additional work had to be performed by Town personnel in the overall reconciliation, and documentation thereof of cash balances maintained in the treasury with the accounting ledger. This was due in part to the implementation during the previous fiscal year of electronic cashbooks. At year end an unidentified variance of approximately \$97,000 existed between the treasury and the accounting ledger. This same variance was maintained for each month reconciled. It is important that these enhanced cashbooks be maintained on a routine basis and the documentation and reconciliation of all cashbook activity (inclusive of receipts, disbursements, and balances), be attested to by both the treasurer and town accountant on a monthly basis. It is imperative that other accounts (inclusive of payables and withholdings) be more formally monitored as well to ensure activity being processed (receipts, payments, voids, etc.) is accounted for properly and any errors and misstatements (intentional or otherwise) are "prevented, detected and corrected on a timely basis". We have been informed by management that additional efforts have been made for the documentation and reconciliation of overall cash activity for fiscal year 2018 has been implemented and the Town expects that an enhanced monthly reconciliation process will be fully implemented for fiscal year 2018.

Compliance and Other Matters

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

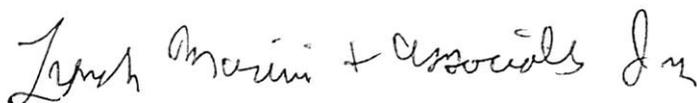
Town of Marion, Massachusetts' Response to Findings

Town management is in the process of improving implemented cashbooks and the documentation and reconciliation of treasury cash with cash balances and activity maintained in the general ledger. In addition, improved procedures are being evaluated surrounding all account reconciliations, including the documentation thereof to be implemented within the next fiscal year. Management believes these improvements will address the issues noted in the current year.

The Town of Marion, Massachusetts' response to the findings in our audit is described above. The Town of Marion, Massachusetts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Norwell, Massachusetts
June 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As management of the Town of Marion (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 year ended June 30, 2017.

Financial Highlights:

- The aggregate assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$36.5 million (net position). Of this amount unrestricted net position of \$3.0 million may be used to meet the government's ongoing obligations to citizens and creditors.
- The total cost of all Town services for fiscal 2017 was approximately \$28.6 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$4.6 million, or approximately 21.4% of general fund expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of the following components: 1) government-wide financial statements 2) fund financial statements and 3) notes to financial statements. The notes to the financial statements provide information related to these changes which are essential in understanding the current financial statements and comparisons with previous years. Required supplementary information as required by the Government Accounting Standards Board (GASB) is presented to provide additional analysis.

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

The *statement of net position* presents information on all of the Town's assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources resulting in the aggregate net position of the Town. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, in order to assess the overall health of the Town.

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). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

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

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Town's major fund. The Town's general fund is considered to be a major fund. The remaining funds are combined into aggregate funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the Finance Director/Town Accountant's office.

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

Proprietary funds: The Town of Marion maintains two proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund operations.

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

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 programs. The Town's fiduciary activities consist primarily of amounts maintained in a trust fund for funding of future insurance costs related to retirees, referred to as the "Other Postemployment Benefits" (OPEB) trust fund and funds restricted related to the Town's landfill closure and post-closure monitoring. Additional amounts held as agency funds relate primarily to student activity funds and police details.

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

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

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

Required supplementary information: The Town adopts an annual budget for its general fund. A budgetary comparison schedule and related notes have been provided for the general fund to demonstrate compliance with the budget. Additionally, the Town reports the schedule of funding progress for its other postemployment benefits, schedule of changes in the Town's net OPEB liability and related ratios, the schedule of contributions – other postemployment benefits, and schedule of employer pension contributions.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial condition. In the case of the Town of Marion, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19.6 million and \$16.9 million for the governmental and business-type activities, respectively, at the close of the most recent fiscal year. This is compared to \$19.6 million and \$16.5 million for the governmental and business-type activities, the previous year.

| | FY2017 | FY2016 | FY2017 | FY2016 |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Governmental | Governmental | Business-type | Business-type |
| | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> |
| Current assets | \$ 14,425,197 | \$ 15,044,758 | \$ 12,789,373 | \$ 11,757,801 |
| Capital assets, net | <u>25,372,082</u> | <u>24,968,310</u> | <u>32,201,681</u> | <u>32,844,704</u> |
| Total assets | 39,797,279 | 40,013,068 | 44,991,054 | 44,602,505 |
| Deferred outflows of resources | 956,217 | 920,825 | 146,312 | 137,594 |
| Current liabilities | 2,654,616 | 3,106,789 | 4,944,903 | 3,300,223 |
| Long term liabilities | <u>18,148,407</u> | <u>18,049,509</u> | <u>22,956,652</u> | <u>24,625,716</u> |
| Total liabilities | 20,803,023 | 21,156,298 | 27,901,555 | 27,925,939 |
| Deferred inflows of resources | 361,201 | 148,883 | 371,679 | 358,570 |
| Net investment in capital assets | 20,716,724 | 19,878,826 | 8,875,309 | 8,343,579 |
| Restricted | 3,818,728 | 3,997,338 | | |
| Unrestricted | <u>(4,946,180)</u> | <u>(4,247,452)</u> | <u>7,988,823</u> | <u>8,112,011</u> |
| Total net position | <u>\$ 19,589,272</u> | <u>\$ 19,628,712</u> | <u>\$ 16,864,132</u> | <u>\$ 16,455,590</u> |

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

Included within the governmental activities current assets, unrelated to capital assets, are \$4.6 million in cash, \$7.0 million in investments and \$2.8 million of receivables, net of allowances for uncollectible amounts. Business-type activity currents include \$6.9 million in cash and \$5.8 million for water and sewer charges receivable, inclusive of \$4.6 million of sewer betterments.

Deferred outflows of resources for governmental activities and business-type activities were \$956,000 and \$146,000 respectively. These amounts relate to the difference in the Town's proportionate share of the difference in projected and actual pension plan earnings and expected and actual plan experience.

Governmental activities current liabilities consisted of \$826,000 of accounts payable and other accrued expenses, \$850,000 of salaries, withholdings and benefits payable, \$21,500 of accrued interest and \$530,000 of notes payable. Business-type activities current liabilities include \$273,000 of accounts payable and other accrued expenses, \$213,000 of accrued interest and \$3.3 million of notes payable.

Governmental activities noncurrent liabilities consisted primarily of \$4.1 million in general obligation bonds payable, of which \$427,000 is considered current, \$7.8 million of net pension liability, \$5.8 million of net other postemployment benefits, \$375,000 for estimated post-closure landfill monitoring costs and \$508,000 of compensated absences. Business-type activities noncurrent liabilities consisted mainly of bonds payable of \$22.7 million, of which \$1.2 million is considered current, with \$5.6 million and \$17.1 million relating to the water and sewer operations respectively. The Town also allocated \$1.2 million of the net pension liability to the business-type activities, allocating approximately \$540,000 to the water fund and \$632,000 to the sewer fund.

Deferred inflows of resources for governmental activities of \$361,000 consist of \$269,000 of change in the Town's pension plan proportion and changes in actuarial assumptions and \$92,000 of unamortized bond premiums. Deferred inflows of resources for the business-type activities of \$372,000 consisted of \$41,000 and \$331,000 of these same amounts.

The largest portion of the Town's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt and deferred outflows of resources associated with acquiring those assets. The Town's governmental and business-type activities combined net investment in capital assets at year end is \$29.6 million, or 81.2% of total combined net position. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position are subject to restrictions placed on how they may be used. Restricted net position of \$3.8 million represent about 10.5% of the Town's combined net position. The remaining balance of net position is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town reports a deficit unrestricted net position balance of \$5.0 million in the governmental activities and an unrestricted balance of \$8.0 million in the business-type activities.

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

| | FY2017 | FY2016 | FY2017 | FY2016 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Governmental | Governmental | Business-type | Business-type |
| | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> |
| Revenues: | | | | |
| Charges for services | \$ 1,535,410 | \$ 1,691,972 | \$ 4,385,605 | \$ 4,212,363 |
| Operating grants and contributions | 2,684,188 | 2,125,106 | 159,948 | 138,534 |
| Capital grants and contributions | 625,111 | 1,039,782 | | 42,732 |
| General revenues: | | | | |
| Property taxes | 17,757,207 | 17,300,148 | | |
| Excise taxes | 1,115,528 | 1,136,854 | | |
| Penalties and interest | 118,019 | 215,706 | | |
| Grants, contributions and other receipts not restricted | 478,048 | 329,285 | | |
| Interest income | 60,760 | 174,531 | 7,595 | 4,719 |
| Total revenue | <u>24,374,271</u> | <u>24,013,384</u> | <u>4,553,148</u> | <u>4,398,348</u> |
| Expenses: | | | | |
| General government | 2,097,994 | 1,960,029 | | |
| Public safety | 3,689,015 | 3,372,242 | | |
| Education | 11,435,364 | 11,019,322 | | |
| Public works | 1,458,350 | 1,313,810 | 4,144,606 | 4,264,531 |
| Human services | 384,477 | 388,915 | | |
| Culture and recreation | 716,806 | 556,989 | | |
| Employee benefits and other costs | 4,404,302 | 3,516,107 | | |
| Interest and other charges | 134,803 | 106,148 | | |
| State and county assessments | 92,600 | 87,803 | | |
| | <u>24,413,711</u> | <u>22,321,365</u> | <u>4,144,606</u> | <u>4,264,531</u> |
| Change in net position | <u>\$ (39,440)</u> | <u>\$ 1,692,019</u> | <u>\$ 408,542</u> | <u>\$ 133,817</u> |

Governmental activities:

Revenues:

- Property taxes of \$17.8 million represent 72.9% of the Town's governmental activity revenue. Property tax growth represents a combination of an annual increase, allowed in the tax levy under Proposition 2 ½, excluded debt and new growth. The Town was below the maximum allowable tax levy for fiscal year 2017.
- Operating grants and contributions make up the second largest revenue source, representing 11.1% of the Town's total governmental activity revenue. This consisted of grants, contributions and other receipts associated with governmental activities. There was an increase in education and culture and recreation grants from the Commonwealth in fiscal year 2017.
- Charges for services represented 6.1% of total governmental activities' revenues. This was reasonably consistent with the previous year.
- Capital grants and contributions decreased over the previous year, primarily due to infrastructure grant from the Commonwealth of Massachusetts recognized in the prior year.

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

Expenses:

- Public safety and education expenditures realized an increase over the prior year as a result of increases in salaries and wages based on negotiated contracts.
- Employee benefit and other costs increase over the prior year as a result of increasing pension and health insurance costs.

Financial Analysis of the Government's Funds

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

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$10.0 million. Approximately \$3.0 million, or 30.1% of this total amount constitutes fund balance restricted for specific purposes. Additionally, approximately \$2.1 million, or 21.0% has been reported as committed, \$920,000, or 10.2% has been reported as assigned, and the remaining \$4.0 million, or 39.7% has been reported as unassigned fund balance at year end. Additional disclosures related to these fund balance classifications have been detailed in the notes to the financial statements.

The general fund is the chief operating fund of the Town. Pursuant to GASB pronouncements, the Town's two stabilization funds are included in the general fund for financial reporting purposes because these stabilization funds are not supported by a specific ongoing revenue source. Additionally, the Town's land acquisition fund is also included in the general fund. As of June 30, 2017, the Town maintained an aggregate stabilization fund balances of \$2.5 million. The land acquisition fund reported a balance of approximately \$380,000. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures and revenues. General fund unassigned fund balance represents approximately 21.4% and 21.9%, of expenditures and revenues respectively. This represents a slight increase over the previous year in which unassigned fund balance represented 23.0% and 21.9% of total general fund expenditures and revenues, respectively.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$22.5 million and the final amended expenditure budget of \$22.0 million is comprised primarily of encumbrances and continuing appropriations (warrant articles) into future periods.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for governmental activities as of June 30, 2017 is \$25.4 million, which was net of accumulated depreciation of \$17.4 million. Town's investment in capital assets for business-type activities (water and sewer funds) as of June 30, 2017 is \$32.2 million, which is net of accumulated depreciation of \$9.7 million. The investment in capital assets includes land; construction in progress; construction, infrastructure, machinery, equipment and vehicles. The table below represents a summary of the Town's capital assets, net of accumulated depreciation by category (in millions) for the year ended June 30, 2017.

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

| <u>Type</u> | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> |
|---|--|---|
| Land and land conservation | \$ 9.0 | \$ 0.4 |
| Construction in progress | | 0.3 |
| Construction and infrastructure | 15.1 | 31.0 |
| Machinery, equipment and licensed vehicles | <u>1.3</u> | <u>0.5</u> |
| Total capital assets | <u>\$ 25.4</u> | <u>\$ 32.2</u> |

Current year governmental activity additions to capital assets totaled about \$1.4 million, consisting primarily of land acquisition of \$435,000 and fire engine purchase of \$540,000. The business-type activities additions to capital assets aggregated approximately \$290,000 comprised mainly of sewer construction in progress.

Long-term debt - At the end of the current fiscal year, the Town's governmental activities had bonded debt outstanding of \$4.1 million. The Town's business-type activities had bonded debt outstanding of \$22.7 million at the end of the current fiscal year. All debt is a general obligation of the Town.

The Town maintains an AAA rating by Standard & Poor's Rating Services as of March 2014.

Economic Factors and Next Year's Budgets and Rates

- The Town's fiscal year 2018 tax levy was approved at \$18.1 million, increasing approximately \$600,000, or 3.4% over fiscal year 2017.
- The Town continued to maintain a single tax rate for fiscal year 2018, amounting to \$11.45 per thousand dollars of property valuation, compared to \$11.41 the previous year.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Marion, Attn: Finance Director/Town Accountant, Town Hall, 2 Spring Street, Marion, MA 02738.

BASIC FINANCIAL STATEMENTS

TOWN OF MARION, MASSACHUSETTS

Statement of Net Position

June 30, 2017

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------|
| | Governmental Activities | Business-type Activities | Total |
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 11,582,417 | \$ 6,943,339 | \$ 18,525,756 |
| Receivables, net of allowance for uncollectibles | 2,800,167 | 5,846,034 | 8,646,201 |
| Due from agency fund | 42,613 | | 42,613 |
| Noncurrent assets: | | | |
| Capital assets, net of accumulated depreciation | 25,372,082 | 32,201,681 | 57,573,763 |
| Total assets | 39,797,279 | 44,991,054 | 84,788,333 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Associated with net pension liability | 956,217 | 146,312 | 1,102,529 |
| Total assets and deferred outflows of resources | \$ 40,753,496 | \$ 45,137,366 | \$ 85,890,862 |
| <u>LIABILITIES</u> | | | |
| Accounts payable and other accrued expenses | \$ 826,087 | \$ 273,446 | \$ 1,099,533 |
| Salaries, withholdings and benefits payable | 849,947 | | 849,947 |
| Accrued interest | 21,592 | 213,246 | 234,838 |
| Notes payable | 530,000 | 3,249,778 | 3,779,778 |
| Noncurrent liabilities: | | | |
| Due within one year | 426,990 | 1,208,433 | 1,635,423 |
| Due in more than one year | 18,148,407 | 22,956,652 | 41,105,059 |
| Total liabilities | 20,803,023 | 27,901,555 | 48,704,578 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Associated with pension liability | 269,459 | 41,231 | 310,690 |
| Unamortized bond premiums | 91,742 | 330,448 | 422,190 |
| Total deferred inflows of resources | 361,201 | 371,679 | 732,880 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 20,716,724 | 8,875,309 | 29,592,033 |
| Restricted | 3,818,728 | | 3,818,728 |
| Unrestricted | (4,946,180) | 7,988,823 | 3,042,643 |
| Total net position | 19,589,272 | 16,864,132 | 36,453,404 |
| Total liabilities, deferred inflows of resources and net position | \$ 40,753,496 | \$ 45,137,366 | \$ 85,890,862 |

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

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

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> | | |
|--|-----------------|-----------------------------|---|---|--|---------------------------------|----------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government</u> | | <u>Total</u> |
| | | | | | <u>Governmental Activities</u> | <u>Business-type Activities</u> | |
| Primary government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 2,097,994 | \$ 325,143 | \$ 22,018 | \$ | \$ (1,750,833) | \$ | \$ (1,750,833) |
| Public safety | 3,689,015 | 580,374 | 129,113 | | (2,979,528) | | (2,979,528) |
| Education | 11,435,364 | 307,075 | 1,023,811 | | (10,104,478) | | (10,104,478) |
| Public works | 1,458,350 | 100,124 | 57,310 | 625,111 | (675,805) | | (675,805) |
| Human services | 384,477 | 394 | 78,821 | | (305,262) | | (305,262) |
| Culture and recreation | 716,806 | 222,300 | 261,526 | | (232,980) | | (232,980) |
| Employee benefits and other insurance | 4,404,302 | | 1,111,589 | | (3,292,713) | | (3,292,713) |
| Interest, issuance costs and other charges | 134,803 | | | | (134,803) | | (134,803) |
| State and county assessments | 92,600 | | | | (92,600) | | (92,600) |
| Total governmental activities | 24,413,711 | 1,535,410 | 2,684,188 | 625,111 | (19,569,002) | | (19,569,002) |
| Business-type activities: | | | | | | | |
| Water | 1,569,167 | 2,061,745 | | | | 492,578 | 492,578 |
| Sewer | 2,575,439 | 2,323,860 | 159,948 | | | (91,631) | (91,631) |
| Total business-type activities | 4,144,606 | 4,385,605 | 159,948 | | | 400,947 | 400,947 |
| Total primary government | \$ 28,558,317 | \$ 5,921,015 | \$ 2,844,136 | \$ 625,111 | (19,569,002) | 400,947 | (19,168,055) |
| General revenues: | | | | | | | |
| Property taxes, net of allowances for uncollectibles | | | | | 17,757,207 | | 17,757,207 |
| Excise taxes, net of allowance for uncollectibles | | | | | 1,115,528 | | 1,115,528 |
| Penalties and interest on taxes | | | | | 118,019 | | 118,019 |
| Grants and contributions not restricted to specific programs | | | | | 478,048 | | 478,048 |
| Investment income | | | | | 60,760 | 7,595 | 68,355 |
| Total general revenues | | | | | 19,529,562 | 7,595 | 19,537,157 |
| Change in net position | | | | | (39,440) | 408,542 | 369,102 |
| Net position - beginning of year | | | | | 19,628,712 | 16,455,590 | 36,084,302 |
| Net position - end of year | | | | | \$ 19,589,272 | \$ 16,864,132 | \$ 36,453,404 |

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

TOWN OF MARION, MASSACHUSETTS
Balance Sheet - Governmental Funds
June 30, 2017

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|---|---|
| <u>ASSETS</u> | | | |
| Cash, cash equivalents and investments | \$ 8,092,568 | 3,489,849 | \$ 11,582,417 |
| Receivables | 1,526,979 | 1,343,188 | 2,870,167 |
| Due from agency fund | 42,613 | | 42,613 |
| Interfund receivables | 335,530 | | 335,530 |
| Total assets | \$ 9,997,690 | \$ 4,833,037 | \$ 14,830,727 |
| <u>LIABILITIES</u> | | | |
| Accounts payable and other current liabilities | \$ 604,929 | 221,158 | \$ 826,087 |
| Salaries, withholdings and benefits payable | 849,947 | | 849,947 |
| Notes payable | | 530,000 | 530,000 |
| Interfund payable | | 335,530 | 335,530 |
| Total liabilities | 1,454,876 | 1,086,688 | 2,541,564 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Deferred revenue | 1,374,986 | 942,403 | 2,317,389 |
| Total deferred inflows of resources | 1,374,986 | 942,403 | 2,317,389 |
| <u>FUND BALANCES</u> | | | |
| Restricted | 46,942 | 2,949,984 | 2,996,926 |
| Committed | 2,092,483 | 6,468 | 2,098,951 |
| Assigned | 481,261 | 439,253 | 920,514 |
| Unassigned | 4,547,142 | (591,759) | 3,955,383 |
| Total fund balances | 7,167,828 | 2,803,946 | 9,971,774 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 9,997,690 | \$ 4,833,037 | \$ 14,830,727 |

| | | |
|--|--|---------------|
| Amounts reported for governmental activities in the statement of net position are different because | | |
| Total fund balances of governmental funds | | \$ 9,971,774 |
| Capital assets of \$42,789,139 net of accumulated depreciation of \$17,417,057, used in governmental activities are not financial resources and are not reported in funds. | | 25,372,082 |
| Reporting on a full accrual basis requires full accrual of revenue, net of an estimate for uncollectible accounts. | | 2,247,389 |
| Certain deferred outflows of resources are reported on a full accrual basis. | | 956,217 |
| Certain deferred inflows of resources are accrued as revenue on a full accrual basis and not in funds. | | (361,201) |
| Long-term liabilities are not due and payable in the current period and are not included in funds. | | (18,575,397) |
| Reporting on a full accrual basis requires associated interest. | | (21,592) |
| Net position of governmental activities | | \$ 19,589,272 |

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

TOWN OF MARION, MASSACHUSETTS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|---|
| Revenues | | | |
| Property taxes | \$ 16,968,275 | \$ 279,143 | \$ 17,247,418 |
| Excise taxes | 848,353 | 259,370 | 1,107,723 |
| Penalties and interest | 117,145 | 874 | 118,019 |
| Fines and fees | 181,125 | | 181,125 |
| Charges for services | 411,109 | 393,889 | 804,998 |
| Investment earnings | 49,667 | 4,278 | 53,945 |
| Departmental, contributions and other | 427,827 | 161,676 | 589,503 |
| Intergovernmental | 1,789,153 | 1,202,644 | 2,991,797 |
| Total revenues | <u>20,792,654</u> | <u>2,301,874</u> | <u>23,094,528</u> |
| Expenditures | | | |
| General government | 1,466,301 | 677,851 | 2,144,152 |
| Public safety | 3,582,211 | 694,327 | 4,276,538 |
| Education | 10,603,481 | 461,262 | 11,064,743 |
| Public works | 1,177,660 | 524,532 | 1,702,192 |
| Human services | 347,540 | 23,772 | 371,312 |
| Culture and recreation | 313,387 | 359,354 | 672,741 |
| State and county assessments | 92,600 | | 92,600 |
| Employee benefits and other costs | 3,100,345 | | 3,100,345 |
| Debt Service: | | | |
| Principal | 429,500 | | 429,500 |
| Interest and other charges | 136,648 | | 136,648 |
| Total expenditures | <u>21,249,673</u> | <u>2,741,098</u> | <u>23,990,771</u> |
| Revenues over (under) expenditures | (457,019) | (439,224) | (896,243) |
| Other financing sources (uses) | | | |
| Transfers in | 288,800 | 10,000 | 298,800 |
| Transfers out | (10,000) | (288,800) | (298,800) |
| Total other financing sources and (uses) | <u>278,800</u> | <u>(278,800)</u> | |
| Revenues and other financing sources over (under) expenditures and other financing uses | (178,219) | (718,024) | (896,243) |
| Fund balance, beginning of year | <u>7,346,047</u> | <u>3,521,970</u> | <u>10,868,017</u> |
| Fund balance, end of year | <u>\$ 7,167,828</u> | <u>\$ 2,803,946</u> | <u>\$ 9,971,774</u> |

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

TOWN OF HANSON, MASSACHUSETTS
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds to the Statement of Activities
 for the Year Ended June 30, 2017

| | |
|---|--------------------|
| Revenues and other financing sources over expenditures and other financing uses | \$ (896,243) |
| <p>Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.</p> | |
| Capital outlays during the fiscal year | 1,358,727 |
| Depreciation recorded for the fiscal year | (954,955) |
| <p>Certain deferred outflows/deferred inflows of resources are recognized on the government-wide basis to be amortized over future periods.</p> | |
| Net changes in deferred outflows/deferred inflows associated with pension | (183,700) |
| <p>Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.</p> | |
| Net change in deferred revenue | 728,500 |
| Net change in allowance for uncollectible accounts | (19,000) |
| <p>The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net position in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.</p> | |
| Principal payments on long-term bonds | 429,500 |
| <p>The fund financial statements record interest on long-term debt when due. The government-wide financial statements report interest on long-term debt.</p> | |
| Net change in accrued interest expense and change in amortization of premiums | 8,619 |
| <p>Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. The net changes in liabilities are as follows:</p> | |
| Other postemployment benefits | (556,506) |
| Net pension liability | (282) |
| Estimated postclosure landfill monitoring costs | 15,000 |
| Compensated absences | <u>30,900</u> |
| Change in net position of governmental activities | <u>\$ (39,440)</u> |

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

TOWN OF MARION, MASSACHUSETTS
Statement of Proprietary Net Position - Proprietary Funds
June 30, 2017

| | Business-type Activities | | |
|---|---------------------------------|----------------------|----------------------|
| | Water | Sewer | Total |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 4,132,923 | \$ 2,810,416 | \$ 6,943,339 |
| Receivables, net of allowance for uncollectibles | 439,937 | 5,406,097 | 5,846,034 |
| Noncurrent assets: | | | |
| Capital assets, net of accumulated depreciation | 9,611,033 | 22,590,648 | 32,201,681 |
| Total assets | 14,183,893 | 30,807,161 | 44,991,054 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Associated with net pension liability | 66,702 | 79,610 | 146,312 |
| Total deferred outflows of resources | 66,702 | 79,610 | 146,312 |
| Total assets and deferred outflows of resources | <u>\$ 14,250,595</u> | <u>\$ 30,886,771</u> | <u>\$ 45,137,366</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 47,855 | \$ 225,591 | \$ 273,446 |
| Accrued interest | 24,908 | 188,338 | 213,246 |
| Notes payable | 2,025,000 | 1,224,778 | 3,249,778 |
| Noncurrent liabilities: | | | |
| Due within one year | 446,900 | 761,533 | 1,208,433 |
| Due in more than one year | 5,834,807 | 17,121,845 | 22,956,652 |
| Total liabilities | 8,379,470 | 19,522,085 | 27,901,555 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Associated with net pension liability | 18,797 | 22,434 | 41,231 |
| Unamortized bond premiums | 114,068 | 216,380 | 330,448 |
| Total deferred inflows of resources | 132,865 | 238,814 | 371,679 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 4,397,790 | 4,477,519 | 8,875,309 |
| Unrestricted | 1,340,470 | 6,648,353 | 7,988,823 |
| Total net position | 5,738,260 | 11,125,872 | 16,864,132 |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 14,250,595</u> | <u>\$ 30,886,771</u> | <u>\$ 45,137,366</u> |

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

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

| | Business-typeActivities | | |
|--|--------------------------------|----------------------|----------------------|
| | Water Fund | Solid Waste | Total |
| Operating revenues: | | | |
| Charges for services | \$ 2,036,785 | \$ 2,296,070 | \$ 4,332,855 |
| Penalties and interest | 24,960 | 27,790 | 52,750 |
| Total operating revenues | <u>2,061,745</u> | <u>2,323,860</u> | <u>4,385,605</u> |
| Operating expenses: | | | |
| Salaries, wages and benefits | 436,040 | 497,781 | 933,821 |
| Contracted services | 343,107 | 355,397 | 698,504 |
| Supplies and other expenses | 380,504 | 381,741 | 762,245 |
| Depreciation | 211,133 | 721,252 | 932,385 |
| Total operating expenses | <u>1,370,784</u> | <u>1,956,171</u> | <u>3,326,955</u> |
| Operating income (loss) | 690,961 | 367,689 | 1,058,650 |
| Non operating revenues (expenses) | | | |
| Investment income | 4,091 | 3,504 | 7,595 |
| Intergovernmental debt subsidies | | 159,948 | 159,948 |
| Interest expense and debt charges | (198,383) | (619,268) | (817,651) |
| Total non operating revenue, net | <u>(194,292)</u> | <u>(455,816)</u> | <u>(650,108)</u> |
| Change in net position | 496,669 | (88,127) | 408,542 |
| Net position at beginning of year | <u>5,241,591</u> | <u>11,213,999</u> | <u>16,455,590</u> |
| Net position at end of year | <u>\$ 5,738,260</u> | <u>\$ 11,125,872</u> | <u>\$ 16,864,132</u> |

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

TOWN OF MARION, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2017

| | <u>Business-type Activities</u> | | |
|---|--|----------------------------|----------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| Cash flows from operating activities: | | | |
| Receipts from customers and users | \$ 2,054,753 | \$ 2,716,231 | \$ 4,770,984 |
| Payments to vendors | (359,702) | (202,156) | (561,858) |
| Payments for interfund services | (316,110) | (309,417) | (625,527) |
| Payments to employees and related benefits | <u>(408,157)</u> | <u>(461,970)</u> | <u>(870,127)</u> |
| Net cash provided by operating activities | 970,784 | 1,742,688 | 2,713,472 |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | (38,431) | (250,931) | (289,362) |
| Intergovernmental revenue | | 159,948 | 159,948 |
| Proceeds from the issuance of temporary debt | 2,025,000 | 1,224,778 | 3,249,778 |
| Principal payments on bonds and notes | (1,919,100) | (1,134,637) | (3,053,737) |
| Interest and other costs | <u>(208,470)</u> | <u>(640,458)</u> | <u>(848,928)</u> |
| Net cash used for capital and related activities | (141,001) | (641,300) | (782,301) |
| Cash flows from investing activities | | | |
| Investment income | <u>4,091</u> | <u>3,504</u> | <u>7,595</u> |
| Net change in cash and cash equivalents | 833,874 | 1,104,892 | 1,938,766 |
| Cash and cash equivalents at beginning of year | <u>3,299,049</u> | <u>1,705,524</u> | <u>5,004,573</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 4,132,923</u></u> | <u><u>\$ 2,810,416</u></u> | <u><u>\$ 6,943,339</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 690,961 | \$ 367,689 | \$ 1,058,650 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 211,133 | 721,252 | 932,385 |
| Changes in assets and liabilities: | | | |
| Receivables, net of allowance for collectibles | (6,992) | 392,371 | 385,379 |
| Deferred outflows of resources associated with pension | (3,197) | (5,521) | (8,718) |
| Accounts payable | 47,799 | 225,565 | 273,364 |
| Net OPEB obligation | 15,049 | 19,494 | 34,543 |
| Net pension liability | 708 | 2,457 | 3,165 |
| Compensated absences | | 1,000 | 1,000 |
| Deferred inflows of resources associated with pension | <u>15,323</u> | <u>18,381</u> | <u>33,704</u> |
| Total adjustments | <u>279,823</u> | <u>1,374,999</u> | <u>1,654,822</u> |
| Net cash provided by operating activities | <u><u>\$ 970,784</u></u> | <u><u>\$ 1,742,688</u></u> | <u><u>\$ 2,713,472</u></u> |
| Schedule of non-cash activities related to capital and related financing: | | | |
| Amortization of debt premiums | \$ 7,867 | \$ 12,728 | \$ 20,595 |
| Interest subsidy | \$ | \$ 159,948 | \$ 159,948 |

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

TOWN OF MARION, MASSACHUSETTS
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2017

| | OPEB Trust Fund | Landfill Postclosure Fund | Agency Amounts |
|------------------------------------|----------------------------|--------------------------------------|---------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 1,067,392 | \$ 442,542 | \$ 29,379 |
| Total assets | <u>\$ 1,067,392</u> | <u>\$ 442,542</u> | <u>\$ 29,379</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ | \$ | \$ 377 |
| Due to the General Fund | | | 42,613 |
| Amounts held in escrow | | | (13,611) |
| Total liabilities | | | <u>\$ 29,379</u> |
| <u>NET POSITION</u> | | | |
| Amounts held in trust | <u>1,067,392</u> | <u>442,542</u> | |
| Total liabilities and net position | <u>\$ 1,067,392</u> | <u>\$ 442,542</u> | |

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

TOWN OF MARION, MASSACHUSETTS
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2017

| | OPEB Trust Fund | Landfill Postclosure Fund |
|-----------------------------------|----------------------------|--------------------------------------|
| Additions | | |
| Employer contributions | \$ 496,502 | \$ |
| Investment income | 75,957 | 1,934 |
| Total additions | 572,459 | 1,934 |
| Deductions | | |
| Benefit payments | 296,502 | |
| Change in net position | 275,957 | 1,934 |
| Net position at beginning of year | 791,435 | 440,608 |
| Net position at end of year | \$ 1,067,392 | \$ 442,542 |

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Note 1. Organization and Reporting Entity

A. Organization

The Town of Marion, Massachusetts (the Town), was incorporated in 1852. The Town operates under a Town Meeting form of government. The Town's major operations include police and fire protection, public works, elementary education, and general administrative services. In addition, the Town owns and operates both water and sewerage systems.

B. Reporting Entity

General

The accompanying financial statements present the Town of Marion, Massachusetts (the primary government) and its component units.

The Marion Library Association (the Library), a not-for-profit organization organized under the laws of the Commonwealth of Massachusetts, operates the public library which serves the Town of Marion. Pursuant to a historical arrangement between the Town and the Library, the Library occupies a Town owned building rent free and an annual assessment (approved at Town Meeting) is paid by the Town as the primary support for library services being provided. The Town's assessment for fiscal year 2017 was \$158,110.

The Town has not reported the Library as a component unit in the accompanying financial statements. Financial information of the Library can be obtained by contacting them directly at: Marion Library Association, 8 Spring Street, Marion, MA 02738.

Joint Ventures

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

The following is a list of additional significant joint ventures in which the Town participates, their purpose, and the annual assessment or payments paid by the Town. Financial information may be obtained from each joint venture by contacting them directly.

| <u>Joint venture and address</u> | <u>Purpose</u> | <u>FY 2017 Payments</u> |
|--|---|--------------------------------|
| Old Rochester Regional School District 135 Marion Road Mattapoisett, MA 02739 | To provide secondary education | \$ 4,198,277 |
| Upper Cape Cod Regional Technical High School 220 Sandwich Rd, Bourne, MA 02532 | To provide secondary vocational education | \$ 305,193 |
| Mattapoisett River Valley Water District P.O. Box 1055 Mattapoisett, MA 02739 | To provide joint water treatment facilities for member towns of Marion, Mattapoisett, Fairhaven and serving Rochester | \$ 233,129 |
| Southeastern Massachusetts Educational Collaborative 12 Wellesley Road New Bedford, MA 02748 | To provide specialized education to students of member communities | \$ 90,295 |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| <u>Joint venture and address</u> | <u>Purpose</u> | <u>FY 2017 Payments</u> |
|--|---|-------------------------|
| Marion-Rochester Regional Health District 2 Spring Street Marion, MA 02738 | To provide regional health services | \$ 55,561 |
| Cape Cod Collaborative 418 Bumps River Road Osterville, MA 02655 | To provide education services to member communities | \$ 72,947 |

The Old Rochester Regional School District (the District) is governed by a nine (9) member school committee including three (3) elected representatives of the Town of Marion. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. The Town's share of the capital costs was approximately 27.4%.

The Upper Cape Cod Regional Technical High School (the District) is governed by a nine (9) member school committee. The Town of Marion has one (1) representative on the District's school committee. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. The Town's share of the capital costs was approximately 6.7%.

There was no assessment from the Carver/Marion/Wareham Regional Refuse Disposal District for the fiscal year 2017.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

Government-wide Statements

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

The net costs (by function or business-type activity) are normally covered by general revenue. Certain costs, such as employee fringe benefits, property and liability insurance, among others are not allocated among the Town's functions and are reported as a separate functional expense in the Statement of Activities, this includes teacher pension benefit contributions made on the Town's behalf. None of these costs are allocated among the respective functions.

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

Fund Financial Statements

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

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

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held in a fiduciary capacity and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The following governmental fund types can be used by the Town:

Governmental Funds:

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

Major Funds

- General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. See also Note 3C.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

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

Proprietary Funds:

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

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

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose and other trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements. The Town currently does not maintain any funds which have been classified as private purpose trust funds.

TOWN OF MARION, MASSACHUSETTS

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June 30, 2017

- OPEB Trust fund accounts for resources held in trust for providing future benefits for “other post-employment benefits” in the form of health insurance for eligible retired Town employees. Pursuant to Massachusetts General Law, amounts set aside in this trust fund are legally restricted solely for funding this future obligation and are not subject to claims of any general creditor of the Town.
- Landfill Post-closure fund accounts for resources held specifically for landfill post-closure monitoring. See Note 13.
- Agency funds are used to hold funds on behalf of parties other than the Town. Agency funds are custodial in nature and do not involve measurement of results of operations. Student activity accounts, amounts generated by and maintained for the benefit of students, have been classified as agency funds.

B. Measurement Focus and Basis of Accounting

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

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

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

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

C. Fair Value Measurement

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

D. Cash, Cash Equivalents and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form consolidated cash. For the purpose of the financial statements cash and cash equivalents include all demand and savings accounts. The Town maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reflected on the financial statements as "cash and cash equivalents". Massachusetts General Laws and local provisions place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution.

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

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

E. Interfund Receivables and Payables

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

F. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three years or more years old as uncollectible for financial reporting purposes. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectable. The Town also considers outstanding water and sewer charges to be fully collectible because amounts can also be secured by lien.

G. Capital Assets

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

Government-wide Statements

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

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost. The Town generally utilizes a capitalization threshold of \$10,000.

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

| | |
|---------------------------|-------------|
| ➤ Land improvements | 20 years |
| ➤ Construction | 40 years |
| ➤ Infrastructure | 10-40 years |
| ➤ Machinery and Equipment | 5-30 years |
| ➤ Vehicles | 5- 8 years |

Fund Financial Statements

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

H. Deferred Outflows and Deferred Inflows

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

I. Liabilities

Liabilities represent *present obligations* to sacrifice resources for which the government has *little or no discretion to avoid*. The primary focus is on the obligation for the government to perform. The accounting treatment for these obligations depends on whether they are reported in the government-wide or fund financial statements.

Current liabilities are reported in both the fund and government-wide financial statements. Current liabilities represent obligations incurred in the operating cycle for acquisition goods, services, accruals for salaries/wages, vacation accruals, and other obligations due or generally expected to be liquidated within one year from the balance sheet date. Government-wide financial statements also report other current liabilities such as accrued interest, which is reported on a full accrual basis.

J. Compensated Absences

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

K. Equity Classifications

Government-wide Statements

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

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The Town utilizes funds for qualifying activities pursuant to the following hierarchy. Fund balances can be classified into the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting (the highest level of authority) and require such action to remove the constraint.
- Assigned fund balance – consist of amounts that are constrained by the Town's intent to be used for a specific purpose. Intent is expressed by (a) the governing body itself, or (b) a body, or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Amounts are generally assigned by the governing body, or committee, or department head responsible for respective budgeted appropriations. Amounts may also be assigned by action of Town Meeting votes.
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

L. Use of Estimates

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

M. Total Columns

The total column presented on the government-wide financial statements represents consolidated financial information.

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

N. Pension

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

Note 3. Stewardship, Compliance, and Accountability

A. Property Tax Calendar and Limitations

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

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

The Town maintains a Community Preservation Fund, in accordance with Massachusetts General Laws, which mandates these funds be spent in the following areas: open space, affordable housing and historic resources. Appropriations are made via Town Meeting vote. A 2% surcharge is added to the real estate tax bill, and contributions are potentially available by the state annually.

B. Budgetary Basis of Accounting

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

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

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

C. Fund Equities

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

| | <u>General</u> <u>Fund</u> | <u>Other</u> <u>Governmental</u> <u>Funds</u> | <u>Total</u> <u>Governmental</u> <u>Funds</u> |
|----------------------------|-------------------------------|---|---|
| Restricted: | | | |
| General government | \$ | \$ 252,530 | \$ 252,530 |
| Public safety | | 369,833 | 369,833 |
| Education | | 315,302 | 315,302 |
| Public works | | 290,006 | 290,006 |
| Human services | | 83,744 | 83,744 |
| Culture & recreation | | 113,118 | 113,118 |
| Debt service | 46,942 | | 46,942 |
| Community preservation: | | | |
| Community housing | | 333,673 | 333,673 |
| Open space and recreation | | 46,816 | 46,816 |
| Historic | | 291,425 | 291,425 |
| Other | | <u>853,537</u> | <u>853,537</u> |
| subtotal | <u>46,942</u> | <u>2,949,984</u> | <u>2,996,926</u> |
| Committed: | | | |
| General government | 562,793 | | 562,793 |
| Public safety | 230,974 | | 230,974 |
| Education | 253,619 | | 253,619 |
| Public works | 130,100 | | 130,100 |
| Culture & recreation | 12,600 | | 12,600 |
| Employee benefits | 360,000 | | 360,000 |
| Land acquisition | 382,549 | | 382,549 |
| Capital outlay | <u>159,848</u> | <u>6,468</u> | <u>166,316</u> |
| subtotal | <u>2,092,483</u> | <u>6,468</u> | <u>2,098,951</u> |
| Assigned: | | | |
| General government | 48,025 | 170,491 | 218,516 |
| Public safety | 38,034 | | 38,034 |
| Education | 13,977 | | 13,977 |
| Public works | 9,711 | 110,447 | 120,158 |
| Human services | | 158,213 | 158,213 |
| Culture & recreation | 1,375 | 102 | 1,477 |
| Operating budget and other | <u>370,139</u> | | <u>370,139</u> |
| subtotal | <u>481,261</u> | <u>439,253</u> | <u>920,514</u> |
| Unassigned: | | | |
| | <u>4,547,142</u> | <u>(591,759)</u> | <u>3,955,383</u> |
| Total fund balance | <u><u>\$ 7,167,828</u></u> | <u><u>\$ 2,803,946</u></u> | <u><u>\$ 9,971,774</u></u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

The Town maintains several stabilization funds in accordance with provisions of Massachusetts General Laws (MGL). These funds report funds set aside by Town Meeting vote for further appropriation or in accordance with MGL for the Board of Selectmen to perform interfund borrowings during the year. Since the funds are not supported by specific revenue sources, these funds are included with the general fund for financial reporting purposes. The Town maintains a general operating stabilization fund as well as additional stabilization funds to be maintained for school expenditures and capital improvements. The balances in these funds are as follows at June 30, 2017.

| | | |
|-------------------------|----|------------------|
| Stabilization -general | \$ | 2,153,629 |
| Stabilization - school | | 212,203 |
| Stabilization - capital | | <u>159,848</u> |
| Total | \$ | <u>2,525,680</u> |

The amounts associated with the above stabilization funds have been reported as unassigned fund balance.

Additionally, the Town maintains a land acquisition fund which was originally established by special legislation in 1998, establishing a property surcharge. The surcharge associated with this fund has since ceased and the Town subsequently adopted the Community Preservation Act, pursuant to MGL. Accordingly, the funds in the land acquisition fund have no future revenue stream. Town Meeting is responsible for approving any appropriations from this fund. The balance in this fund was \$382,549 at June 30, 2017. It has been reported as committed for land acquisition in the above table.

The Town reported deficit unassigned fund balances of \$601,759 in other governmental funds consisting primarily of over-expenditures of specific restricted funds as of June 30, 2017. These deficit balances are as follows:

| | | |
|------------------------------------|----|------------------|
| Chapter 90 Highway | \$ | (25,822) |
| SPED 94-192 Grant | | (9,574) |
| Project Grow Community Partnership | | (12,170) |
| BBNEP Bog Fish Grant | | (5,659) |
| Police 911 Grant | | (8,680) |
| Fire Truck Capital Project | | <u>(529,854)</u> |
| Total deficit fund balance | \$ | <u>(591,759)</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

D. Restricted Net Position

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

| | | |
|---|----|-------------------------|
| Community Preservation Act fund | \$ | 1,525,451 |
| Land acquisition | | 382,549 |
| Waterways fund | | 301,959 |
| School building lease fund | | 119,157 |
| Marion affordable housing fund | | 158,213 |
| Music Hall restoration | | 76,777 |
| Other gifts and donations | | 245,555 |
| Debt service | | 46,942 |
| Other grants, revolving and special revenue funds | | <u>962,125</u> |
| Total restricted net position | \$ | <u><u>3,818,728</u></u> |

Note 4. Cash, Cash Equivalents and Investments

Massachusetts General Laws, Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. The OPEB Trust fund (fiduciary fund) is invested in accordance with MGL Chapter 203C. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value. The Town has adopted formal depository and investment policies.

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. At June 30, 2017 cash deposits totaled \$12,092,867 and had a carrying amount of \$11,623,429. Of the deposit amounts, \$5.4 million was insured and \$5.4 million was covered by collateralization agreements. The difference between deposit amounts and carrying amounts primarily represents outstanding checks and deposits in transit.

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

Governmental activities:

| <u>Type of investment</u> | <u>Value</u> | <u>Measurement</u> | <u>Rating</u> | <u>1 year or less</u> | <u>1-5 years</u> | <u>Total</u> |
|----------------------------|---------------------|--------------------|------------------|---------------------------|---------------------|---------------------|
| Money markets | \$ 219,137 | amortized cost | unrated | \$ 219,137 | \$ | \$ 219,137 |
| MMDT | 126,353 | amortized cost | unrated | 126,353 | | 126,353 |
| Certificates of deposit | 3,538,171 | Level 1 | FDIC/DIF insured | 2,564,561 | 973,610 | 3,538,171 |
| Mutual funds-fixed income | 303,258 | Level 2 | unrated | 303,258 | | 303,258 |
| Corporate bonds | 604,325 | Level 2 | AA+ - BBB+ | 189,939 | 414,386 | 604,325 |
| Domestic stock | 507,545 | Level 1 | not applicable | 507,545 | | 507,545 |
| US Treasury/agencies bonds | <u>1,687,982</u> | Level 1 | AA+ | <u> </u> | <u>1,687,982</u> | <u>1,687,982</u> |
| Total | <u>\$ 6,986,771</u> | | | <u>\$ 3,910,793</u> | <u>\$ 3,075,978</u> | <u>\$ 6,986,771</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

The investments related to the Town's fiduciary activities – OPEB Trust fund and Landfill Post-closure fund are as follows:

OPEB Trust fund:

| <u>Type of investment</u> | <u>Value</u> | <u>Measurement</u> | <u>Rating</u> | <u>Maturities</u> | | |
|---------------------------|---------------------|--------------------|---------------|---------------------|------------------|---------------------|
| | | | | <u>1 year</u> | <u>1-5 years</u> | <u>Total</u> |
| | | | | <u>or less</u> | | |
| Money markets | \$ 2,006 | amortized cost | unrated | \$ 2,006 | \$ | \$ 2,006 |
| Mutual funds-fixed income | 1,065,386 | Level 2 | unrated | 1,065,386 | | 1,065,386 |
| Total | <u>\$ 1,067,392</u> | | | <u>\$ 1,067,392</u> | <u>\$</u> | <u>\$ 1,067,392</u> |

Landfill Postclosure fund:

| <u>Type of investment</u> | <u>Value</u> | <u>Measurement</u> | <u>Rating</u> | <u>Maturities</u> | | | <u>Total</u> |
|------------------------------------|-------------------|--------------------|---------------|-------------------|-------------------|-------------------|-------------------|
| | | | | <u>1 year</u> | <u>1-5 years</u> | <u>6-10 years</u> | |
| | | | | <u>or less</u> | | | |
| Money markets and other | \$ 4,446 | amortized cost | unrated | \$ 4,446 | \$ | \$ | \$ 4,446 |
| U.S. Government and agencies bonds | 383,031 | Level 1 | AAA | 141,264 | 241,767 | | 383,031 |
| Total | <u>\$ 387,477</u> | | | <u>\$ 145,710</u> | <u>\$ 241,767</u> | <u>\$</u> | <u>\$ 387,477</u> |

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

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town's investment policy does not limit the duration of maturity for its special revenue, stabilization and community preservation funds. All other funds' investments are limited to maturity durations of one year or less. Any repurchase agreements shall not exceed ninety days.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the above table. Equity securities, repurchase agreements and equity mutual funds are not rated as to credit risk. The Town's investment policy provides certain provisions for addressing credit risk.

The credit ratings associated with the corporate bonds reported in the governmental activities of based upon Standard's & Poor's ratings is as follows:

| | <u>Rating</u> | <u>Maturities</u> | | |
|----------------------------|---------------|-------------------|-------------------|-------------------|
| | | <u>Less than</u> | <u>1-5 years</u> | <u>Total</u> |
| | | <u>one year</u> | | |
| Bank of America Corp 2.25% | BBB+ | \$ | \$ 115,047 | \$ 115,047 |
| Coca Cola Co Note N/A | AA- | | 219,584 | 219,584 |
| Wells Fargo Co MTN 1.500% | A | 189,939 | | 189,939 |
| Georgia Power Co Note N/A | A- | | 79,755 | 79,755 |
| Total | | <u>\$ 189,939</u> | <u>\$ 414,386</u> | <u>\$ 604,325</u> |

TOWN OF MARION, MASSACHUSETTS

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June 30, 2017

Concentration of credit risk – With the exception of U.S. Treasury obligations, investments fully collateralized by U.S. Treasury or agencies, and State pools (MMDT), no more than 10% of the Town’s investments shall be invested in a single financial institution. With the exception of fully insured certificates of deposit, no single investment maintained by the Town exceeds 5% of the aggregate governmental and fiduciary activities investments.

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of a deposit or investment. Excluding the Town’s OPEB Trust fund, the Town’s investment policy explicitly forbids investment in any instrument exposed to foreign currency risk.

Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Position and Balance Sheet.

The Town includes the following receivables for individual major and non-major governmental funds in the aggregate, including applicable allowances for uncollectible amounts.

At June 30, 2017, the receivable balances for the Town’s governmental and business-type activities consist of the following:

| <u>Receivable type</u> | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u> |
|--|--------------------------------|---|------------------------------|
| Governmental activities: | | | |
| Real estate, surcharge and personal property taxes | \$ 1,015,989 | \$ (7,000) | \$ 1,008,989 |
| Tax liens | 166,814 | | 166,814 |
| Motor vehicle and boat excise | 149,318 | (63,000) | 86,318 |
| Departmental | 205,292 | | 205,292 |
| Intergovernmental: | | | |
| MA highway awards | 931,968 | | 931,968 |
| State and federal grants | <u>400,786</u> | | <u>400,786</u> |
| Total governmental activities | <u>\$ 2,870,167</u> | <u>\$ (70,000)</u> | <u>\$ 2,800,167</u> |

| <u>Receivable type</u> | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u> |
|--------------------------------|--------------------------------|---|------------------------------|
| Business-type activities: | | | |
| Water enterprise fund: | | | |
| User charges, fees and liens | <u>\$ 439,937</u> | <u>\$</u> | <u>\$ 439,937</u> |
| Sewer enterprise fund: | | | |
| User charges, fees and liens | 526,885 | | 526,885 |
| Betterments | 4,556,461 | | 4,556,461 |
| MA Clean water Trust subsidies | <u>322,751</u> | | <u>322,751</u> |
| Total sewer | <u>\$ 5,406,097</u> | <u>\$</u> | <u>\$ 5,406,097</u> |

TOWN OF MARION, MASSACHUSETTS

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June 30, 2017

Governmental activities' intergovernmental receivables include \$931,968 of Massachusetts Chapter 90 highway awards. Massachusetts highway awards represent unexpended balances of allotments for projects that have not yet been submitted. The sewer enterprise fund receivables included approximately \$4.6 million of betterments, a portion of which are being apportioned to users' property tax bills on an annual basis. The sewer enterprise fund also reported amounts due from the Massachusetts Clean Water Trust in the amount of \$322,751 for future principal subsidies.

Note 6. Deferred Outflows of Resources and Deferred Inflows of Resources

The following is a summary of the Town's deferred outflows of resources and deferred inflows of resources as of June 30, 2017.

| | <u>Deferred Outflows of Resources</u> | | |
|--|--|---|---------------------|
| Governmental activities: | | | |
| Associated with net pension liability: | | | |
| Differences between expected and actual experience | \$ | 203,422 | |
| Net difference between projected and actual | | | |
| investment earnings on pension plan investments | | <u>752,795</u> | |
| Total governmental activities | \$ | <u>956,217</u> | |
| Business-type activities: | | | |
| | | <u>Deferred Outflows of Resources</u> | |
| Associated with net pension liability: | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| Differences between expected and actual experience | \$ 14,190 | \$ 16,936 | \$ 31,126 |
| Net difference between projected and actual | | | |
| investment earnings on pension plan investments | <u>52,512</u> | <u>62,674</u> | <u>115,186</u> |
| Total business-type activities | <u>\$ 66,702</u> | <u>\$ 79,610</u> | <u>\$ 146,312</u> |
| | | | |
| | | <u>Deferred Inflows of Resources</u> | |
| Governmental funds: | | | |
| Property taxes, surcharges and personal property | \$ | 857,963 | |
| Tax liens | | 166,814 | |
| Motor vehicle and boat excise | | 149,318 | |
| Other | | 211,326 | |
| Intergovernmental - MA highway awards | | <u>931,968</u> | |
| Total governmental funds | \$ | <u>2,317,389</u> | |

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

| | <u>Deferred Inflows of Resources</u> |
|---|---|
| Governmental activities: | |
| Associated with net pension liability: | |
| Change in assumptions | \$ 222,241 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 47,218 |
| Total associated with net pension liability | 269,459 |
| Unamortized bond premiums | 91,742 |
| Total governmental activities | \$ 361,201 |

| | <u>Deferred Inflows of Resources</u> | | |
|---|---|---------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| Business-type activities: | | | |
| Associated with net pension liability: | | | |
| Change in assumptions | \$ 15,503 | \$ 18,502 | \$ 34,005 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,294 | 3,932 | 7,226 |
| Total associated with net pension liability | 18,797 | 22,434 | 41,231 |
| Unamortized bond premiums | 114,068 | 216,380 | 330,448 |
| Total business-type activities | \$ 132,865 | \$ 238,814 | \$ 371,679 |

Note 7. Capital Assets

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

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Transfers & Disposals</u> | <u>Ending Balances</u> |
|--|--------------------------------------|-------------------------|---|-----------------------------------|
| <u>Governmental activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,386,944 | \$ | \$ | \$ 6,386,944 |
| Land conservation | 2,218,870 | 435,000 | | 2,653,870 |
| Sub-total | 8,605,814 | 435,000 | | 9,040,814 |
| Capital assets being depreciated: | | | | |
| Land improvements | 368,420 | | | 368,420 |
| Construction and improvements | 21,483,558 | 700 | | 21,484,258 |
| Infrastructure | 4,975,138 | 68,267 | | 5,043,405 |
| Machinery and equipment | 2,182,788 | 37,644 | | 2,220,432 |
| Licensed vehicles | 3,814,694 | 817,116 | | 4,631,810 |
| Sub-total | 32,824,598 | 923,727 | | 33,748,325 |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Governmental activities (continued):

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Transfers & Disposals</u> | <u>Ending Balances</u> |
|----------------------------------|--------------------------------------|-------------------------|---|-----------------------------------|
| Less accumulated depreciation: | | | | |
| Land improvements | 310,671 | 13,657 | | 324,328 |
| Construction and improvements | 8,585,871 | 513,985 | | 9,099,856 |
| Infrastructure | 2,284,149 | 203,177 | | 2,487,326 |
| Machinery and equipment | 1,809,299 | 68,341 | | 1,877,640 |
| Licensed vehicles | 3,472,112 | 155,795 | | 3,627,907 |
| Sub-total | <u>16,462,102</u> | <u>954,955</u> | | <u>17,417,057</u> |
| Governmental capital assets, net | <u>\$ 24,968,310</u> | <u>\$ (403,772)</u> | <u>\$</u> | <u>\$ 25,372,082</u> |

| | <u>Beginning Balances</u> | <u>Additions</u> | <u>Transfers & Disposals</u> | <u>Ending Balances</u> |
|---|--------------------------------------|-------------------------|---|-----------------------------------|
| <u>Business-type activities:</u> | | | | |
| <u>Water enterprise:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 202,237 | \$ | \$ | \$ 202,237 |
| Construction in progress | | 20,433 | | 20,433 |
| Sub-total | <u>202,237</u> | <u>20,433</u> | | <u>222,670</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 137,803 | | | 137,803 |
| Construction and improvements | 11,047,747 | 17,998 | | 11,065,745 |
| Machinery and equipment | 360,960 | | | 360,960 |
| Licensed vehicles | 249,694 | | | 249,694 |
| Sub-total | <u>11,796,204</u> | <u>17,998</u> | | <u>11,814,202</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 82,678 | 5,250 | | 87,928 |
| Construction and improvements | 1,709,860 | 175,598 | | 1,885,458 |
| Machinery and equipment | 276,233 | 12,305 | | 288,538 |
| Licensed vehicles | 145,935 | 17,980 | | 163,915 |
| Sub-total | <u>2,214,706</u> | <u>211,133</u> | | <u>2,425,839</u> |
| Water enterprise capital assets, net | <u>\$ 9,783,735</u> | <u>\$ (172,702)</u> | <u>\$</u> | <u>\$ 9,611,033</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| | <u>Beginning</u> | | <u>Transfers &</u> | | <u>Ending</u> |
|---|-------------------------|-------------------------|-------------------------------|--|------------------------|
| | <u>Balances</u> | <u>Additions</u> | <u>Disposals</u> | | <u>Balances</u> |
| <u>Business-type activities:</u> | | | | | |
| <u>Sewer enterprise:</u> | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 149,317 | \$ | \$ | | \$ 149,317 |
| Construction in progress | | 250,931 | | | 250,931 |
| Sub-total | <u>149,317</u> | <u>250,931</u> | | | <u>400,248</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 36,289 | | | | 36,289 |
| Construction and improvements | 28,520,434 | | | | 28,520,434 |
| Machinery and equipment | 781,362 | | | | 781,362 |
| Licensed vehicles | 113,710 | | | | 113,710 |
| Sub-total | <u>29,451,795</u> | | | | <u>29,451,795</u> |
| Less accumulated depreciation: | | | | | |
| Land improvements | 29,250 | 1,814 | | | 31,064 |
| Construction and improvements | 6,058,731 | 686,400 | | | 6,745,131 |
| Machinery and equipment | 386,681 | 21,845 | | | 408,526 |
| Licensed vehicles | 65,481 | 11,193 | | | 76,674 |
| Sub-total | <u>6,540,143</u> | <u>721,252</u> | | | <u>7,261,395</u> |
| Sewer enterprise capital assets, net | <u>\$ 23,060,969</u> | <u>\$ (470,321)</u> | <u>\$</u> | | <u>\$ 22,590,648</u> |

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

Governmental activities:

| | |
|--|-------------------|
| General government | \$ 2,842 |
| Public safety | 266,937 |
| Education | 363,621 |
| Public works | 264,425 |
| Health and human services | 13,165 |
| Culture and recreation | <u>43,965</u> |
| Total depreciation expense - governmental activities | <u>\$ 954,955</u> |

Business-type activities:

| | |
|---|-------------------|
| Water | 211,133 |
| Sewer | <u>721,252</u> |
| Total depreciation expense - business-type activities | <u>\$ 932,385</u> |

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

Note 8. Interfund Balances and Activity

The General fund was due \$335,530 from other governmental funds for cash deficit balances at June 30, 2017. The General fund was also due \$42,613 from agency fund for police details.

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

| <u>Purpose</u> | <u>General Fund</u> | <u>Other Governmental Funds</u> |
|---|-------------------------|---|
| Wetland protection fees | \$ 2,500 | \$ (2,500) |
| Dog fund - animal control | 5,000 | (5,000) |
| State aid to library fund | 4,300 | (4,300) |
| Chester Vose fund - reduction taxes | 2,000 | (2,000) |
| Fire truck capital project BAN pay down | (10,000) | 10,000 |
| Waterways fund - fund marine resources | <u>275,000</u> | <u>(275,000)</u> |
| Net transfers | <u>\$ 278,800</u> | <u>\$ (278,800)</u> |

During fiscal year 2017, the Town transferred \$10,000 into the general stabilization fund. Additionally, the Town transferred \$50,000 into the capital stabilization fund. The Town transferred \$200,000 into the OPEB trust fund to continue to fund future other post-employment benefits. This amount has been reflected as an employer contribution and included in employee benefits for financial reporting purposes.

Note 9. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2017 for the Town's governmental activities.

| <u>Purpose</u> | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/2017</u> | <u>Current Portion</u> |
|---|---------------------------------|--------------------|--------------------|------------------------------|----------------------------|
| Governmental activities: | | | | | |
| Refunding issue, dated 6/30/2013, 2.00% matures 7/15/2024 | \$ 1,865,000 | \$ | \$ 225,500 | \$ 1,639,500 | \$ 222,990 |
| Police station, dated 12/1/2010, 2.00%-4.00%, matures 12/1/2030 | <u>2,692,000</u> | _____ | <u>204,000</u> | <u>2,488,000</u> | <u>204,000</u> |
| Total governmental activities bonds | 4,557,000 | | 429,500 | 4,127,500 | 426,990 |
| Estimated landfill post-closure monitoring costs | 390,000 | | 15,000 | 375,000 | 15,000 |
| Compensated absences, net | 538,900 | | 30,900 | 508,000 | 198,000 |
| Net Other Post-Employment (OPEB) obligation | 5,188,810 | 1,042,551 | 486,045 | 5,745,316 | |
| Net Pension Liability (NPL) | <u>7,819,299</u> | <u>1,033,993</u> | <u>1,033,711</u> | <u>7,819,581</u> | _____ |
| Total governmental activities non-current liabilities | <u>\$18,494,009</u> | <u>\$2,076,544</u> | <u>\$1,995,156</u> | <u>\$ 18,575,397</u> | <u>\$ 639,990</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

The following is a summary of changes in long-term obligations for the year ended June 30, 2017 for the Town's business-type activity – water enterprise fund:

| <u>Purpose</u> | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/2017</u> | <u>Current Portion</u> |
|---|---------------------------------|-----------------------------|-------------------|------------------------------|-----------------------------|
| Water enterprise fund: | | | | | |
| Refunding issue, dated 6/30/2013, 2.0% matures 7/15/2025 | \$ 1,115,200 | \$ | \$ 123,100 | \$ 992,100 | \$ 120,900 |
| Water tanks, dated 12/01/2010, 2.00%-4.00%, matures 12/01/2030 | 345,000 | | 23,000 | 322,000 | 23,000 |
| Water mains, dated 12/1/2010, 2.00%-4.00% matures 12/01/2030 | 1,890,000 | | 126,000 | 1,764,000 | 126,000 |
| Water mains, dated 12/01/2010, 2.00%-4.00%, matures 12/01/2030 | <u>2,653,000</u> | <u> </u> | <u>177,000</u> | <u>2,476,000</u> | <u>177,000</u> |
| Total bonds payable | 6,003,200 | | 449,100 | 5,554,100 | 446,900 |
| Compensated absences, net | 23,000 | | | 23,000 | |
| Net Other Postemployment (OPEB) obligation | 149,588 | 23,220 | 8,171 | 164,637 | |
| Net Pension Liability (NPL) | <u>539,262</u> | <u>72,856</u> | <u>72,148</u> | <u>539,970</u> | <u> </u> |
| Total water enterprise fund | <u>\$ 6,715,050</u> | <u>\$ 96,076</u> | <u>\$ 529,419</u> | <u>\$ 6,281,707</u> | <u>\$ 446,900</u> |

The following is a summary of changes in long-term obligations for the year ended June 30, 2017 for the Town's business-type activity – sewer enterprise fund:

| <u>Purpose</u> | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/2017</u> | <u>Current Portion</u> |
|--|---------------------------------|------------------|-------------------|------------------------------|----------------------------|
| Sewer enterprise fund: | | | | | |
| Sewer treatment facility-design, dated 2/1/2003, 2.25%-4.00%, matures 2/1/2017 | \$ 64,000 | \$ | \$ 64,000 | \$ | \$ |
| Sewer mains, dated 2/1/2003, 2.25%-4.00%, matures 2/1/2017 | 20,000 | | 20,000 | | |
| Sewer-engineering services, dated 2/1/2003, 2.25%-4.00%, matures 2/01/2017 | 11,000 | | 11,000 | | |
| Sewer-plans, dated 2/1/2003, 2.25%-4.00%, matures 2/01/2017 | 7,000 | | 7,000 | | |
| Sewer treatment facility, dated 2/1/2003, 2.25%- 4.00%, matures 2/01/2017 | 13,000 | | 13,000 | | |
| MWPAT, Clean Water bonds, dated 10/16/2005, matures 7/15/2035 | 6,108,140 | | 243,140 | 5,865,000 | 248,815 |
| MWPAT, Clean Water bonds, subsidized, refunded 5/2007, 2.70%, matures 8/01/2033 | 7,065,000 | | 285,000 | 6,780,000 | 295,000 |
| MWPAT, Clean Water bonds, subsidized, refunded 5/2007, 2.70%, matures 8/01/2034 | 1,135,000 | | 40,000 | 1,095,000 | 45,000 |
| MWPAT, General Obligation Replacement bond, dated 3/18/2011, 2.42%, matures 7/15/2035 | 311,096 | | 12,115 | 298,981 | 12,424 |
| MWPAT, Clean Water bonds, dated 7/8/2010, 2.00%, matures 7/15/2030 | 621,489 | | 35,941 | 585,548 | 36,659 |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| Sewer enterprise fund (Continued): | | | | Balance | Current |
|--|----------------------------|-------------------------|--------------------------|-------------------------|-----------------------|
| <u>Purpose</u> | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>6/30/2017</u> | <u>Portion</u> |
| | <u>July 1, 2016</u> | | | | |
| MWPAT, Clean Water bonds, swap out 7/8/2012, 2.00%, matures 7/15/2032 | 42,646 | | 2,436 | 40,210 | 2,488 |
| Septic system betterment, dated 12/1/2010, 2.00%-4.00%, matures 12/1/2020 | 25,000 | | 5,000 | 20,000 | 5,000 |
| Refunding issue, dated 6/30/2013, 2.0% matures 7/15/2024 | 49,800 | | 6,400 | 43,400 | 6,200 |
| Massachusetts Clean Water Trust, dated 1/7/2015, matures 1/15/2035 | 3,020,085 | | 3,020,085 | | |
| Massachusetts Clean Water Trust, dated 12/16/2016, 2.00%, matures 1/15/2035 | _____ | <u>2,498,270</u> | <u>107,605</u> | <u>2,390,664</u> | <u>109,947</u> |
| Total bonds payable | 18,493,256 | 2,498,270 | 3,872,722 | 17,118,804 | 761,533 |
| Compensated absences, net | 6,000 | 1,000 | | 7,000 | |
| Net Other Postemployment (OPEB) obligation | 106,486 | 21,780 | 2,286 | 125,980 | |
| Net Pension Liability (NPL) | <u>629,137</u> | <u>88,659</u> | <u>86,202</u> | <u>631,594</u> | _____ |
| Total sewer enterprise fund | <u>\$ 19,234,879</u> | <u>\$ 2,609,709</u> | <u>\$ 3,961,210</u> | <u>\$ 17,883,378</u> | <u>\$ 761,533</u> |

Long-term debt

Massachusetts Clean Water Trust bonds

The outstanding Massachusetts Clean Water Trust (CWT) subsidized, bonds are recorded at the gross amount outstanding. Pursuant to the arrangement with the CWT, certain principal payments are subsidized by the CWT in future periods. Additionally, it is anticipated the Town will receive a subsidy for a portion of the interest of the debt service via contract payments to CWT (and CWT available earnings). The subsidy for interest is recorded as revenue and expenses in the accompanying financial statements. During fiscal year 2017, the Town received an interest subsidy of approximately \$159,000.

In fiscal year 2017, the CWT 13-07 pool 18 loan was refinanced and the principal was reduced by the remaining draw amount of \$521,815. The reduction of principal occurred through the issuance of new debt dated December 16, 2016. The remaining balance of the new loan is \$2.4 million as of June 30, 2017.

Future debt service

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

Governmental activities:

| | <u>Governmental Activities</u> | | |
|--------------------|---------------------------------------|------------------------|---------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 426,900 | \$ 116,821 | 543,721 |
| 2019 | 419,300 | 104,279 | 523,579 |
| 2020 | 416,800 | 92,858 | 509,658 |
| 2021 | 414,300 | 82,507 | 496,807 |
| 2022 | 406,700 | 72,130 | 478,830 |
| 2023-2027 | 1,595,500 | 202,583 | 1,798,083 |
| 2028-2032 | <u>448,000</u> | <u>20,320</u> | <u>468,320</u> |
| Total | <u>\$ 4,127,500</u> | <u>\$ 691,498</u> | <u>\$ 4,818,998</u> |

TOWN OF MARION, MASSACHUSETTS
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June 30, 2017

Business-type activities:

| Business-type Activities | | | | | | |
|---------------------------------|---------------------|---------------------|---------------------|----------------------|---------------------|----------------------|
| Year | Water Fund | | | Sewer Fund | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2017 | \$ 446,900 | \$ 179,923 | \$ 626,823 | \$ 761,533 | \$ 417,542 | \$ 1,179,075 |
| 2018 | 444,600 | 164,488 | 609,088 | 780,731 | 399,909 | 1,180,640 |
| 2019 | 442,200 | 150,730 | 592,930 | 800,144 | 373,204 | 1,173,348 |
| 2020 | 439,900 | 138,649 | 578,549 | 824,671 | 348,583 | 1,173,254 |
| 2021 | 437,500 | 126,411 | 563,911 | 839,621 | 322,796 | 1,162,417 |
| 2022-2026 | 2,041,000 | 430,048 | 2,471,048 | 4,579,942 | 1,158,745 | 5,738,687 |
| 2027-2031 | 1,302,000 | 104,080 | 1,406,080 | 5,269,657 | 522,274 | 5,791,931 |
| 2032-2036 | _____ | _____ | _____ | 3,262,505 | 91,887 | 3,354,392 |
| Total | <u>\$ 5,554,100</u> | <u>\$ 1,294,329</u> | <u>\$ 6,848,429</u> | <u>\$ 17,118,804</u> | <u>\$ 3,634,940</u> | <u>\$ 20,753,744</u> |

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

The Town considers issuances of temporary debt as reductions in debt authorizations for reporting purposes. Unissued debt authorizations consist of the following at June 30, 2017:

| Purpose | Year | Amount |
|----------------------------------|-------------------|---------------------|
| | Authorized | Unissued |
| Governmental activities: | | |
| Septic system repair program | 2000 | \$ 14,525 |
| Business-type activities: | | |
| Wastewater treatment | 2002 | 1,817,382 |
| Wastewater collection system | 2002 | 166,600 |
| Sewer main extension | 2002 | 205,913 |
| Wastewater treatment | 2017 | <u>1,340,000</u> |
| Total | | <u>\$ 3,544,420</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Lease obligations

A. Operating leases

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

B. Capital leases

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not exceed five years and subject to annual appropriation. The Town does not have any material capital lease obligations outstanding during the year.

Note 10. Temporary Borrowings

Under state law and by authorization of the Board of Selectmen and Town Meeting, the Town is authorized to issue general obligation indebtedness for purposes and terms permitted by Massachusetts statute. Generally, when debt has been authorized, the Town may issue temporary (short-term) debt in anticipation of revenues, grants or issuance of serial bonds or serial notes (long term debt). Temporary debt obligations include the following:

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

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

Changes in the Town's temporary debt which is associated with governmental funds/ activities and business-type activities, for the year ended June 30, 2017 is as follows.

| <u>Purpose</u> | <u>Balance July 1, 2016</u> | <u>Issued</u> | <u>Retired / Renewed</u> | <u>Balance June, 30 2017</u> |
|--|-------------------------------------|-------------------|------------------------------|--------------------------------------|
| Governmental activities: | | | | |
| Bond anticipated note-fire ladder truck, dated 4/22/2016, .80%, due 4/21/2017 | \$ 540,000 | \$ | \$ 540,000 | \$ |
| Bond anticipated note-fire ladder truck, dated 4/21/2017, 1.0%, due 4/19/2018 | | 530,000 | | 530,000 |
| Total governmental activities | <u>\$ 540,000</u> | <u>\$ 530,000</u> | <u>\$ 540,000</u> | <u>\$ 530,000</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| <u>Purpose</u> | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>6/30/2017</u> |
|---|---------------------------------------|---------------------|-----------------------------|------------------------------------|
| Business-type activities: | | | | |
| Sewer fund: | | | | |
| Bond anticipation note-sewer extension, dated 4/22/2016, .80%, due 4/21/2017 | \$ 240,000 | \$ | \$ 240,000 | \$ |
| Bond anticipation note-sewer extension, dated 4/21/2017, 1.0%, due 4/19/2018 | | 220,000 | | 220,000 |
| Bond anticipation note-septic program, dated 4/22/2016, .80%, due 4/21/2017 | 42,000 | | 42,000 | |
| Bond anticipation note-septic program, dated 4/21/2017, 1.0%, due 4/19/2018 | | 36,778 | | 36,778 |
| Bond anticipation note-septic lagoon NPDES, dated 4/21/2017, 1.0%, due 4/19/2018 | <u> </u> | <u>968,000</u> | <u> </u> | <u>968,000</u> |
| Total sewer fund | 282,000 | 1,224,778 | 282,000 | 1,224,778 |
| Water fund: | | | | |
| Bond anticipation note-water tank project, dated 4/22/2016, .80%, due 4/21/2017 | 1,470,000 | | 1,470,000 | |
| Bond anticipation note-water tank project, dated 4/21/2017, 1.0%, due 4/19/2018 | | 1,395,000 | | 1,395,000 |
| Bond anticipation note-water tank project, dated 4/21/2017, 1.0%, due 4/19/2018 | <u> </u> | <u>630,000</u> | <u> </u> | <u>630,000</u> |
| Total water fund | <u>1,470,000</u> | <u>2,025,000</u> | <u>1,470,000</u> | <u>2,025,000</u> |
| Total temporary debt - business-type activities | <u>\$ 1,752,000</u> | <u>\$ 3,249,778</u> | <u>\$ 1,752,000</u> | <u>\$ 3,249,778</u> |

In April 2018, the Town issued temporary debt of \$4.9 million which included aggregate paydowns on the outstanding notes illustrated in the table above of approximately \$237,000 and issuance of new notes associated with wastewater treatment plant equipment and reliability upgrades of \$1.3 million, authorized at the 2018 Annual Town Meeting held May 2017. The newly issued temporary debt consisted of two separate notes which were both issued April 19, 2018 at 1.75% and mature October 15, 2018 and April 19, 2019, respectively.

Note 11. Employee Benefits

A. Retirement Benefits

1. Plymouth County Retirement Association

Plan Description

The Plymouth County Retirement Association (the Plan) is a multiple-employer, cost sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Plymouth County Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions for these school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System (MTRS). Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. As of December 31, 2016, the Association had 55 participating employers.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

Benefits Provided

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

Contributions

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

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

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

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

Governmental employers are required to pay an annual appropriation established by PERAC. The total appropriation includes the amount to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and an additional appropriation in accordance with adopted early retirement incentive programs. The total appropriations are payable July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discount rate of approximately 2%. The pension fund appropriations are allocated among employers based on covered payroll. The Town's statutorily required contribution for the year was \$939,265.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

The collective net pension liability of the Association was determined by an actuarial valuation as of January 1, 2017 (measurement date).

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

| | |
|---|-----------------------|
| | <u>2016</u> |
| Total pension liability | \$ 1,520,090,445 |
| Less: plan fiduciary net position | <u>(886,584,737)</u> |
| Net pension liability | <u>\$ 633,505,708</u> |
| | |
| Plan's fiduciary net position as a percentage of total pension liability | 58.3% |
| | |
| Total employer pension expense | \$ 86,118,672 |
| The Town's proportionate share of the collective net pension liability | \$ 8,991,145 |
| The Town's percentage share of the collective net pension liability | 1.4193% |
| Town covered payroll | \$ 4,686,427 |
| The Town's proportionate share of pension expense recognized | \$ 1,151,398 |

The Town's proportionate share of collective net deferred inflows and outflows of resources was \$791,840. Refer to Note 6 on page 26 for detail regarding deferred inflows and outflows of resources. The net amount of \$791,840 is to be recognized in future pension expense in the amount of \$288,980 for each of the years ending June 30, 2018 and June 30, 2019, \$193,188 for year ended June 30, 2020 and \$20,692 for the year ended June 30, 2021.

Actuarial Assumptions

| | |
|--------------------------------|--|
| Valuation date: | January 1, 2017 |
| Actuarial cost method: | Individual Entry Age Normal Cost |
| Amortization method: | Payments increase at 3.5% for the unfunded actuarial accrued liability, and level amortization of the 2002, 2003 and 2013 Early Retirement Incentive (ERI). |
| Remaining amortization period: | Amortization of the unfunded actuarial accrued liability over 12 years, the 2002 ERI over two years, 2003 ERI over three years and the 2013 ERI over 11 years; all as of July 1, 2017. |
| Asset valuation method: | Market value with a five-year smoothing of asset returns greater than or less than the assumed rate of return, with a 20% corridor. |
| Investment rate of return: | 8.00% |
| Projected salary increases: | 3.75% annually |
| Cost-of-living adjustments: | 3.00% of the less of the pension amount and \$14,000 per year |
| Rates of retirement: | Varies based upon age for general employees, police, and fire employees |
| Rates of disability: | General employees – 45% ordinary (55% service connected) Police & Fire – 10% ordinary (90% service connected) |
| Mortality rates: | It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2016, fully generational. Mortality for retirement members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males and six years for females, |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2016.

Family composition: Assumption that 80% of members will be survived by a spouse, females are three years younger than males and males are three years older than females

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

The investment objective is to fully fund the Plan by generating sufficient long-term inflation adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility, recognizing these are often competing goals. This requires taking both assets and liabilities into account when setting investment strategy. The pension's plan target asset allocation as of January 1, 2010 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-term Expected Rate of Return</u> | <u>Long-term Expected Asset Allocation</u> |
|--------------------------|--|--|
| US Equity | 7.5% | 26.5% |
| Developed markets equity | 7.3% | 16.0% |
| Emerging markets equity | 9.8% | 4.0% |
| Core bonds | 4.2% | 11.5% |
| Foreign bonds | 2.4% | 3.0% |
| Emerging market bonds | 5.5% | 4.0% |
| High yield bonds | 6.0% | 4.0% |
| Bank loans | 5.5% | 3.0% |
| Private equity | 9.6% | 10.0% |
| Real estate | 6.9% | 10.0% |
| Natural resources | 7.0% | 1.0% |
| Infrastructure | 7.8% | 2.0% |
| Hedge fund of funds | 5.3% | 4.0% |
| Cash | 2.8% | 1.0% |

Discount Rate

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

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

| | <u>1% decrease</u> (7.00%) | <u>Current</u> <u>Discount Rate</u> (8.00%) | <u>1% increase</u> (9.00%) |
|--|-------------------------------|---|-------------------------------|
| Plymouth County Retirement Association's net pension liability as of December 31, 2016 | \$792,114,439 | \$633,505,708 | \$498,613,279 |
| Town's proportionate share | \$ 11,239,208 | \$ 8,991,145 | \$ 7,074,759 |

2. Special Funding Situation - MTRS

Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaborative and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. Financial information of the MTRS' Pension Trust fund financial statements is contained in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth's CAFR may be obtained by contacting the Comptroller's office directly at One Ashburton Place #919, Boston, MA 02108.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members-two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who services ex-officio as the Chairman of the MTRB.

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

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Benefits Provided

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

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

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

Contributions

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

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

Contributions are provided by the Commonwealth on behalf of the Town based upon actuarially determined amounts. The annuity portion of the MTRS retirement is funded by employees, through contribution of a percentage of their compensation as indicated above.

Pension Liabilities and expenses related to pensions

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

| | |
|-----------------------------------|--------------------------|
| | <u>2016</u> |
| Total pension liability | \$ 47,300,000,000 |
| Less: plan fiduciary net position | <u>(24,942,072,000)</u> |
| Net pension liability | <u>\$ 22,357,928,000</u> |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| | |
|--|---------------|
| Plan's fiduciary net position as a percentage of total pension liability | 52.73% |
| Commonwealth's proportionate share of collective net pension liability associated with the Town | \$ 10,897,228 |
| Commonwealth's proportionate share associated with the Town as a percentage of the total net pension liability | .048740% |
| Commonwealth's proportionate share of pension expense associated with the Town | \$ 1,111,589 |

The Commonwealth's proportionate share of pension expense has been included on the Town's statement of revenues, expense, and fund balance under intergovernmental revenue and employee benefits and other insurances expenses. In the Statement of Activities, these amounts are reported as Program Revenue Operating Grant and Contributions and employee benefits and other insurances expenses. As the net pension liability is a special funding situation, and the Town does not contribute to MTRS, the Town does not book a liability in the Statement of Net Position.

Actuarial Assumptions

The calculation used the following assumptions:

- (1) (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- (2) Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- (3) Mortality rates were as follows:
 - a. Pre-retirement: reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - b. Post-retirement: reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - c. Disability: reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.

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

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

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate at June 30, 2016.

| | <u>1% Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|--|--------------------|---------------------------|--------------------|
| <u>June 30, 2016</u> | <u>to 6.5%</u> | <u>Discount Rate 7.5%</u> | <u>to 8.5%</u> |
| MTRS- Total | \$27,464,000,000 | \$22,357,928,000 | \$18,022,000,000 |
| Proportionate share associated with Town | \$13,385,922 | \$10,897,228 | \$8,783,902 |

B. Compensated Absences

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

C. Other Postemployment Benefits (GASB 45)

Plan Description

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

- i. Completion of 20 years of service.
- ii. For an employee hired prior to January 1, 1978 – attainment of age 55 as an active member.
- iii. For an employee hired on or after January 1, 1978 – attainment of age 55 as an active member and completion of 10 years of service.

The Plan covered approximately 185 participants. Benefits were paid to approximately 59 retired participants, spouses and beneficiaries during the fiscal year ended June 30, 2017 on the "pay as you go" basis. These benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and Town ordinances.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Funding Policy

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

The Town has accepted provisions of MGL Chapter 32B, Section 20 which allow for the Town to establish a separate OPEB liability trust fund. Currently, the Town's share of premiums are appropriated and paid from the General fund on an annual basis. Accordingly, the net obligation associated with providing these benefits to plan participants is recorded in the governmental activities. At June 30, 2017, the Town maintained \$1,067,392 in the OPEB Trust fund. This amount was not taken into account as of the last valuation date. Copies of the latest valuation with additional details may be obtained by contacting the Town directly.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other Postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation. For the latest valuation, the Town segregated governmental and business-type activities.

| | Governmental Activities | Water Enterprise | Sewer Enterprise | Enterprise Fund Total | Total Town |
|---|------------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------|
| Annual OPEB cost | \$ 1,042,551 | \$ 23,220 | \$ 21,780 | \$ 45,000 | \$ 1,087,551 |
| Contributions made | <u>(486,045)</u> | <u>(8,171)</u> | <u>(2,286)</u> | <u>(10,457)</u> | <u>(496,502)</u> |
| Change in net OPEB obligation | 556,506 | 15,049 | 19,494 | 34,543 | 591,049 |
| Net OPEB obligation - beginning of year | <u>5,188,810</u> | <u>149,588</u> | <u>106,486</u> | <u>256,074</u> | <u>5,444,884</u> |
| Net OPEB obligation -end of year | <u>\$ 5,745,316</u> | <u>\$ 164,637</u> | <u>\$ 125,980</u> | <u>\$ 290,617</u> | <u>\$ 6,035,933</u> |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the previous two years were as follows.

Governmental Activities:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|-----------------------------|---|--------------------------------|
| 6/30/2017 | \$ 1,042,551 | 46.62% | \$ 5,745,316 |
| 6/30/2016 | \$ 1,005,351 | 44.35% | \$ 5,188,810 |
| 6/30/2015 | \$ 964,466 | 44.23% | \$ 4,629,331 |

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Business-type Activities:

| Fiscal Year | Annual OPEB | Percentage of | Net OPEB |
|---------------------|--------------------|--------------------------------|--------------------------|
| <u>Ended</u> | <u>Cost</u> | <u>Annual OPEB</u> | <u>Obligation</u> |
| | | <u>Cost Contributed</u> | |
| 6/30/2017 | \$ 45,000 | 23.24% | \$ 290,617 |
| 6/30/2016 | \$ 43,394 | 22.11% | \$ 256,074 |
| 6/30/2015 | \$ 41,629 | 22.05% | \$ 222,273 |

Funding Status and Schedule of Funding Progress

The total unfunded actuarial liability (governmental activities and business-type activities) was determined using the level dollar thirty year amortization basis.

Schedule of Funding Progress

| Actuarial | Actuarial | Actuarial | Unfunded | Funded | Covered | UAAL as a |
|--------------------|-------------------|-------------------|-------------------------|-----------------------|-------------------|-----------------------------|
| Valuation | Value of | Accrued | AAL | Ratio | Payroll | Percentage |
| <u>Date</u> | <u>(a)</u> | <u>(b)</u> | <u>(b) - (a)</u> | <u>(a)/(b)</u> | <u>(c)</u> | <u>[(b)-(a)]/(c)</u> |
| 7/1/2014 | \$ 354,836 | \$ 9,801,721 | \$ 9,446,885 | 3.60% | \$ 7,564,106 | 124.90% |
| 7/1/2011 | \$ 25,388 | \$ 9,339,009 | \$ 9,313,621 | 0.30% | \$ 6,607,273 | 141.00% |
| 7/1/2008 | \$ | \$ 7,719,764 | \$ 7,719,764 | 0.00% | \$ 5,499,872 | 140.40% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The following assumptions and methods were utilized:

- Actuarial cost method: Projected Unit Credit
- Asset valuation method: Market value of plan assets.
- Discount rate: 4.00% per annum.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

- Pre-and Post retirement mortality: It is assumed that both pre-retirement and post-retirement mortality are represented by the RP-2000 Mortality Table projected to 2017 for males and females.
- General Inflation Assumption: 2.5% per annum
- Compensation increases: 3.00% per annum
- Healthcare Trend Rates: Assumed generally 5% increase for health and dental FY2017 and thereafter.
- Amortization of UAAL: Amortized as level dollar amount over 30 years at the last valuation
- Remaining Amortization Period: 24 years at July 1, 2014

C. Other Postemployment Benefits (GASB 74)

As previously indicated, the Town administers a single employer defined benefit plan which provides health, dental and life insurance to substantially all retired employees and their spouses (plan members).

Investments

The Town has established an OPEB trust fund under the provisions of MGL Chapter 32B, Section 20. The Town maintains a separate investment account for this trust which is managed by a third party. The Town's investment policy in regard to the allocation of invested assets is established and may be amended by the Town. It is the policy of the Town to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Town's adopted asset allocation policy as of June 30, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|---------------------------|---------------------------------|
| Equities | 50% |
| Fixed income | 40% |
| Alternatives | <u>10%</u> |
| Total | <u>100%</u> |

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 8.54%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the Town

The components of the net OPEB liability of the Town at June 30, 2017 were as follows:

| | |
|-----------------------------|---------------------|
| Total OPEB liability | \$ 10,592,433 |
| Plan fiduciary net position | <u>1,067,392</u> |
| Town's net OPEB liability | <u>\$ 9,525,041</u> |

| | |
|--|-------|
| Plan fiduciary net position as a Percentage of total OPEB liability | 10.1% |
|--|-------|

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

Actuarial Methods and Assumptions

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

| | |
|--------------------------------|--|
| Valuation date: | June 30, 2014* |
| Actuarial cost method: | Individual Entry Age Normal |
| Investment rate of return: | 6.47%, net of investment expense, including inflation |
| Municipal bond rate: | 3.13%, as of June 30, 2017 |
| Discount rate: | 5.25%, blended rate |
| Investment inflation: | 2.75% as of June 30, 2017 and for future periods |
| Medical inflation assumptions: | 5.00% level |
| Annual compensation increases: | 3.0% per annum |
| Actuarial value of assets: | Market value |
| Mortality rates: | Preretirement – RP-2000 Mortality Table projected to 2017 Post-retirement – RP-2000 Mortality Table projected to 2017 |
| Changes in assumptions: | Discount rate is 5.25%, previously 4.00%; the actuarial cost method changed pursuant to GASB Statement No. 74. |

*GASB Statement No. 74 requires the valuation date to be within 24 months of the reporting date. Management has evaluated the changes in valuation inputs since the most recent valuation and has determined that no significant changes in plan membership has occurred.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The expected real rate of return, combined with the investment inflation assumption was 6.47%. As of June 30, 2017, the only investments in the OPEB trust fund are fixed income mutual funds, who's expected long term rate of return is 3.72%, net of investment expense.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.25 percent. The Town elected to use a blended discount rate to reflect both the long term rate of return on plan investments and the 20-year Aa municipal bond rate. The discount rate has increased from 4.0 percent to 5.25 percent due to the implementation of GASB Statement No. 74.

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.0 percent) or 1-percentage-point higher (6.0 percent) than the current healthcare trend rate:

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

| | 1% Decrease | Current Trend | 1% Increase |
|--------------------|-----------------------|----------------------------|-----------------------|
| | <u>(4.00%)</u> | <u>Rate (5.00%)</u> | <u>(6.00%)</u> |
| Net OPEB Liability | \$ 6,184,965 | \$ 9,525,041 | \$ 13,044,038 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.25 percent) or 1-percentage-point higher (6.25 percent) than the current discount rate:

| | 1% | Current | 1% |
|--------------------|-----------------------|----------------------------|-----------------------|
| | Decrease | Discount | Increase |
| | <u>(4.25%)</u> | <u>Rate (5.25%)</u> | <u>(6.25%)</u> |
| Net OPEB Liability | \$10,843,332 | \$ 9,525,041 | \$ 7,871,985 |

Note 13. Landfill Closure and Post-closure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter.

In 2005, as required by the Massachusetts Department of Environmental Protection (DEP), as a component of the Town's Landfill Closure Plan, the Town entered a "Standby Trust Agreement" with Rockland Trust Company (the Trustee), which provides for financial assurances that funds are available as may be needed for corrective action, closure and/or post-closure maintenance of the landfill. The beneficiary of the trust is the DEP.

The Town entered an agreement with End Cap Technology, LLC to cap and close the Town's sanitary landfill pursuant to the Landfill Closure Plan and the provisions of the Standby Trust Agreement. Pursuant to these agreements, the Town maintains these funds in a restricted fund which has been reported as a trust fund. The Town has received final certification on the closure phase and is currently in the monitoring phase. Any costs to be paid from these restricted funds must be approved by DEP. At June 30, 2017, the Town estimates future costs associated with monitoring requirements to be approximately \$375,000. This estimate has been recorded in the government-wide financial statements as of June 30, 2017. This estimate is based upon current information and has the potential to change in future periods due to factors including, but not limited to: inflation, deflation, technology, applicable laws and regulations.

Note 14. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Town carries commercial insurance for all risk except for health insurance. The Town belongs to the Gateway Municipal Health Group (Group), a joint purchasing group established under MGL Chapter 32B, section 12 for health insurance. The Town pays annual premiums to the Group for employees and retirees. The Town paid premiums to the Group of approximately \$924,000 for the year ended June 30, 2017. Additional information related to the Group can be obtained by contacting the Town Treasurer, or the Group directly.

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

Note 15. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2017. These legal actions are ongoing, and at this point in time in the opinion of the administration no outcome can reasonably be foreseen. Accordingly, no provision for any loss relating to these lawsuits has been recorded in the financial statements.

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.

The Town currently is in the process of various roadway and water and sewer infrastructure projects, and has several ongoing related contracts with engineers and contractors related thereto.

Note 16. GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which are applicable to the Town's financial statements.

The GASB issued Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which was required to be implemented in fiscal year 2017. The pronouncement replaces previously amended issued guidance and establishes new accounting and financial reporting requirements for OPEB plans, including those plans administered through certain trusts. The Town has implemented this pronouncement during fiscal year 2017.

The GASB issued Statement #77, Tax Abatement Disclosures, which was required to be implemented in fiscal year 2017. The pronouncement issues guidance regarding disclosures of any tax abatement agreements with parties which the government promises to forgo tax revenues for the promise of specific actions which contribute to economic development or otherwise benefits the government or its citizens. The Town has evaluated this pronouncement and has determined that it is not applicable for fiscal year 2017.

The GASB issued Statement #81, Irrevocable Split-Interest Agreements, which was required to be implemented in fiscal year 2017. The pronouncement issues guidance improving accounting and financial reporting for these agreements which are used by donors to provide resources to two or more beneficiaries, including governments. The Town has evaluated this pronouncement and has determined that it is not applicable for fiscal year 2017.

Future pronouncements

The GASB issued Statement #75, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The Town expects the implementation of the pronouncement to have a material effect on the financial statements.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2017

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

The GASB issued Statement #83, *Certain Asset Retirement Obligations* which is generally required to be implemented in fiscal year 2019. The pronouncement addresses certain asset retirement obligations which are a legally enforceable liability associated with the retirement of a tangible capital asset. The Town will evaluate the implementation of the pronouncement as applicable, but doesn't expect the pronouncement to be applicable.

The GASB issued Statement #84, *Fiduciary Activities* which is generally required to be implemented in fiscal year 2020. The pronouncement addresses improvements in identification of fiduciary activities and the accounting and financial reporting thereof. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #85, *Omnibus 2017* which is generally required to be implemented in fiscal year 2018. The pronouncement addresses a variety of issues in the implementation of various statements. The Town will evaluate the topics addressed by the statement as applicable.

The GASB issued Statement #86, *Certain Debt Extinguishment Issues* which is generally required to be implemented in fiscal year 2018. The pronouncement addresses consistency in accounting and financial reporting for in-substance defeasance of debt with only existing resources. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #87, *Leases* which is generally required to be implemented in fiscal year 2020. The pronouncement establishes a single reporting model for lease accounting based on the fundamental principal that leases are financings of the right to use an underlying asset. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which is generally required to be implemented in fiscal year 2019. The pronouncement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments. The Town will evaluate the implementation of the pronouncement as applicable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Funding Progress – Other Postemployment Benefits (OPEB)
 (GASB Statement No. 45)
 June 30, 2017

Funding Status and Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The unfunded actuarial accrued liability was determined using the level dollar thirty year amortization basis.

The schedule of funding progress for required valuation periods are as follows.

| <u>Schedule of Funding Progress</u> | | | | | | |
|--|------------|--------------|------------------|----------------|--------------|----------------------|
| | Actuarial | Actuarial | Unfunded | Funded | Covered | UAAL as a |
| Actuarial | Value of | Accrued | AAL | Ratio | Payroll | Percentage |
| Valuation | Assets | Liability | (UAAAL) | (a)/(b) | Payroll | of Covered |
| <u>Date</u> | <u>(a)</u> | <u>(b)</u> | <u>(b) - (a)</u> | <u>(a)/(b)</u> | <u>(c)</u> | <u>[(b)-(a)]/(c)</u> |
| Total Town | | | | | | |
| Activities: | | | | | | |
| 7/1/2014 | \$ 354,836 | \$ 9,801,721 | \$ 9,446,885 | 3.60% | \$ 7,564,106 | 124.90% |
| 7/1/2011 | \$ 25,388 | \$ 9,339,009 | \$ 9,313,621 | 0.30% | \$ 6,607,273 | 141.00% |
| 7/1/2008 | \$ | \$ 7,719,764 | \$ 7,719,764 | 0.00% | \$ 5,499,872 | 140.40% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation reflected a closed group, and does not reflect any new entrants after the valuation date of July 1, 2014. The valuation assumed retiree contributions increased with the same trend rate as health care claims.

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress – Other Postemployment Benefits (OPEB)
(GASB Statement No. 45)
June 30, 2017

Significant actuarial assumptions used in the valuation are as follows:

Actuarial Cost Method: Projected Unit Credit

Pre- and Post-Retirement Mortality: Represented by the RP-2000 Mortality Tables

Investment Rate of Return: 4.0% per annum

Healthcare Trend Rates: Assumed generally 5% increase for health and dental FY2016 and thereafter.

General Inflation Assumption: 2.5% per annum

Compensation Increases: 3.0% per annum

Participation Rate: It is assumed that 80% of eligible employees at retirement would enroll in medical, dental and life insurance plans.

Percent Married: It is assumed 80% of the participants who elect healthcare coverage for themselves would also elect for their spouse. It was also assumed husbands are three years older than their wives.

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortized as level dollar amount over 30 years at the last valuation

Remaining Amortization Period: 24 years at July 1, 2014

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS
Required Supplementary Information
Schedule of Changes in the Town's Net OPEB Liability and Related Ratios
(GASB Statement No. 74)

The following disclosures illustrate the changes in net OPEB liability and related ratios of the Town's Other Postemployment Benefit Plan for the financial reporting date of June 30, 2017, based upon the latest actuarial valuation of June 30, 2014, under provisions of GASB Statement No. 74

| Total OPEB liability | 2017 |
|--|-----------------------------|
| Service cost | \$ 367,628 |
| Interest | 535,852 |
| Benefits payments | <u>(296,502)</u> |
| Net change in total OPEB liability | 606,978 |
| Total OPEB liability - beginning | <u>9,985,455</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 10,592,433</u></u> |
| Plan fiduciary net position | |
| Contributions - employer | \$ 496,502 |
| Net investment income | 75,957 |
| Benefit payments | <u>(296,502)</u> |
| Net change in fiduciary net position | 275,957 |
| Plan fiduciary net position - beginning | <u>791,435</u> |
| Plan fiduciary net position - ending (b) | <u><u>1,067,392</u></u> |
| Town's net OPEB liability - ending (a-b) | <u><u>\$ 9,525,041</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 10.08% |
| Covered - employee payroll | 8,204,558 |
| Town's net OPEB liability as a percentage of covered-employee payroll | 116.09% |

*Note: this schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-trend is compiled, OPEB plans should present information for those years for which information is available.

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Contributions - Other Postemployment Benefits
 (GASB Statement No. 74)

| | <u>2017</u> |
|---|--------------------------|
| Actuarially determined contribution | \$ 952,175 |
| Contributions in relation to the actuarially determined contribution | <u>\$ 496,502</u> |
| Contributions deficiency (excess) | <u><u>\$ 455,673</u></u> |
| Covered-employee payroll | \$ 8,204,558 |
| Contributions as a percentage of covered-employee payroll | 6.05% |

Notes to Schedule

| | |
|---|---|
| Valuation date: | 6/30/2014 |
| Methods and assumptions used to determine the contribution rates: | |
| Actuarial cost method: | Entry Age Normal |
| Amortization period: | 30 years, level percentage of payroll |
| Discount rate: | 5.25% |
| Inflation: | 2.75% |
| Asset valuation method: | Market value |
| Healthcare cost trend rates: | 5.00% |
| Salary increases: | 3.00% |
| Investment rate of return: | 6.47% |
| Discount rate: | 5.25% |
| Retirement age: | Varies based on eligibility |
| Mortality: | Pre-retirement - RP-2000 Mortality Table projected to 2017 Post-retirement - RP-2000 Mortality Table projected to 2017 |
| Change in assumptions: | Discount rate previously 4.00% |

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

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS

Required Supplementary Information
Schedule of Pension Plan Contributions
Last 10 Fiscal Years*

A. Plymouth County Retirement Association

The Plymouth County Retirement Association (the Plan) is a multiple-employer, cost sharing contributory defined benefit pension plan covering eligible employees (except for school department employees who serve in a teaching capacity). Based upon the actuarial valuation date of the Plan as of December 31, 2016, the following is presented.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------------|-----------------------|-----------------------|
| Total pension liability | \$ 1,520,090,445 | \$ 1,466,863,880 | \$ 1,417,490,110 |
| Less: | | | |
| Plan fiduciary net position | <u>(886,584,737)</u> | <u>(832,637,492)</u> | <u>(834,581,696)</u> |
| Net pension liability | <u>\$ 633,505,708</u> | <u>\$ 634,226,388</u> | <u>\$ 582,908,414</u> |
| | | | |
| Plan fiduciary net position as a percentage of total pension liability | 58.32% | 56.80% | 58.90% |
| | | | |
| Town's proportionate/allocated share of collective net pension liability | \$ 8,991,145 | \$ 8,987,700 | \$ 8,260,463 |
| Town's proportionate share of pension expense | \$ 1,151,398 | \$ 1,027,052 | \$ 854,268 |
| Town's share of collective net pension liability as a percentage of the total | 1.419% | 1.417% | 1.417% |
| Actuarially determined contribution | \$ 939,265 | \$ 896,935 | \$ 828,705 |
| Contributions in relation to actuarial determined contribution | <u>\$ (939,265)</u> | <u>\$ (896,935)</u> | <u>\$ (828,705)</u> |
| Contribution deficiency(excess) | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | | | |
| Town's covered payroll | \$ 4,686,427 | \$ 4,394,315 | \$ 3,496,068 |
| Town's contributions as a percentage of covered payroll | 20.04% | 20.41% | 23.70% |
| Town's proportionate share of the collective net pension liability as a percentage of covered payroll | 191.86% | 204.53% | 236.28% |

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

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS

Required Supplementary Information

Schedule of Pension Plan Contributions

Last 10 Fiscal Years*

B. Special Funding Situation - Massachusetts Teachers Retirement System (MTRS)

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB and the Commonwealth is a nonemployer contributing entity in the MTRS (the Plan). Since the Town does not contribute directly to the MTRS, there is no net pension liability to recognize for each employer. Based upon the actuarial valuation of the Plan as of January 1, 2016, the following is presented.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------------|--------------------------|--------------------------|
| Total pension liability | \$ 47,300,000,000 | \$ 45,918,711,000 | \$ 41,435,000,000 |
| Less: | | | |
| Plan fiduciary net position | <u>(24,942,072,000)</u> | <u>(25,429,068,000)</u> | <u>(25,538,646,000)</u> |
| Net pension liability | <u>\$ 22,357,928,000</u> | <u>\$ 20,489,643,000</u> | <u>\$ 15,896,354,000</u> |
| | | | |
| Plan fiduciary net position as a percentage of total pension liability | 52.73% | 55.38% | 61.64% |
| | | | |
| Commonwealth's proportionate/allocated share of collective net pension liability associated with the Town | \$ 10,897,228 | \$ 10,173,722 | \$ 8,284,374 |
| Commonwealth's proportionate share of collective pension expense associated with the Town | \$ 1,111,589 | \$ 825,179 | \$ 575,555 |
| Commonwealth's proportionate share of collective net pension liability as a percentage of the total | 0.048740% | 0.049653% | 0.052115% |
| Actuarially determined contribution | \$ 548,120 | \$ 507,423 | \$ 488,515 |
| Contributions in relation to actuarial determined contribution | <u>\$ (548,120)</u> | <u>\$ (507,423)</u> | <u>\$ (488,515)</u> |
| Contribution deficiency(excess) | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | | | |
| Town's covered payroll -approximate | \$3.1 million | \$3.1 million | \$3.1 million |
| Commonwealth's contributions on behalf of the Town as a percentage of covered payroll | 16.13% | 16.67% | 15.29% |
| Commonwealth's proportionate share of the collective net pension liability as a percentage of covered payroll | 351.61% | 334.17% | 259.26% |

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

See Independent Auditor's Report.

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

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues: | | | | |
| Property taxes and liens | \$ 17,369,800 | \$ 17,369,800 | \$ 17,381,370 | \$ 11,570 |
| Excise taxes | 679,500 | 679,500 | 848,353 | 168,853 |
| Penalties and interest | 93,000 | 93,000 | 117,145 | 24,145 |
| Departmental and other | 717,500 | 717,500 | 1,020,060 | 302,560 |
| Investment income | 10,000 | 10,000 | 31,161 | 21,161 |
| Intergovernmental | <u>1,012,979</u> | <u>1,012,979</u> | <u>1,241,033</u> | <u>228,054</u> |
| Total revenues | 19,882,779 | 19,882,779 | 20,639,122 | 756,343 |
| Expenditures: | | | | |
| General government | 2,234,474 | 1,843,608 | 1,859,575 | (15,967) |
| Public safety | 3,728,915 | 3,676,784 | 3,582,211 | 94,573 |
| Education | 10,722,882 | 10,692,489 | 10,664,769 | 27,720 |
| Public works | 1,300,843 | 1,311,632 | 1,177,660 | 133,972 |
| Human services | 325,007 | 352,123 | 347,540 | 4,583 |
| Culture and recreation | 281,648 | 313,812 | 313,387 | 425 |
| Employee benefits and other insurance | 3,188,900 | 3,077,600 | 2,584,478 | 493,122 |
| State and county assessments | 89,552 | 89,552 | 92,600 | (3,048) |
| Debt service: | | | | |
| Principal | 439,500 | 439,500 | 439,500 | |
| Interest and other charges | <u>149,465</u> | <u>149,465</u> | <u>136,648</u> | <u>12,817</u> |
| Total expenditures | <u>22,461,186</u> | <u>21,946,565</u> | <u>21,198,368</u> | <u>748,197</u> |
| Revenues over (under) expenditures | (2,578,407) | (2,063,786) | (559,246) | 1,504,540 |
| Other financing sources (uses): | | | | |
| Transfers in from other funds | 917,175 | 917,175 | 914,327 | (2,848) |
| Transfers out to other funds | <u>(260,000)</u> | <u>(260,000)</u> | <u>(260,000)</u> | |
| Total other financing sources and (uses) | <u>657,175</u> | <u>657,175</u> | <u>654,327</u> | <u>(2,848)</u> |
| Revenues and other financing sources over under expenditures and other financing uses | (1,921,232) | (1,406,611) | <u>\$ 95,081</u> | <u>\$ 1,501,692</u> |
| Other budget items: | | | | |
| Use of available funds | 1,083,101 | 1,283,055 | | |
| Carryover encumbrances and articles | <u>838,131</u> | <u>123,556</u> | | |
| Total other budget items | <u>1,921,232</u> | <u>1,406,611</u> | | |
| Net budget | <u>\$</u> | <u>\$</u> | | |

See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS
Notes to Required Supplementary Information
June 30, 2017

A. Budgetary basis of accounting

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

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted. Activity of the Town's Community Preservation, and Stabilization funds are authorized at Town Meetings. The Town does not have legally adopted annual budgets for its other special revenue funds. All regional school district budgets are prepared under the direction of the respective school committee. All assessments must be approved at Town Meeting. Capital project funds' activity is also conducted in accordance with authorization of town meetings. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies. Enterprise funds budgets are not required supplementary information.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, enterprise fund budgets are not presented. The Town is required to present budgetary information for the General fund. The "actual" results column of the Budgetary Comparison Schedule is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the year ended June 30, 2017, is presented below:

| | <u>Revenues</u> | <u>Expenditures</u> | Other financing Sources (Uses), Net |
|--|----------------------|----------------------|--|
| As reported on a budgetary basis | \$ 20,639,122 | \$ 21,198,368 | \$ 654,327 |
| Contribution to OPEB Trust fund | | 200,000 | 200,000 |
| Adjustment for stabilization funds and land acquisition fund | 18,506 | | 60,000 |
| Adjustment for indirect costs transferred from water and sewer funds | | (625,527) | (625,527) |
| Timing of school summer payroll | | (61,288) | |
| BAN permanent pay down | | (10,000) | (10,000) |
| Adjustment for property tax revenue reported on modified accrual basis and adjustment to provision for refunds | (413,094) | | |
| State funded teacher's pension | <u>548,120</u> | <u>548,120</u> | |
| As reported on a GAAP basis | <u>\$ 20,792,654</u> | <u>\$ 21,249,673</u> | <u>\$ 278,800</u> |

See Independent Auditor's Report.