

TOWN OF MARION, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2018

**TOWN OF MARION, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, during fiscal year 2018, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Town reported a restatement for the change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii to ix, and the, Schedule of Changes in the Town's Net OPEB Liability and Related Ratios, Schedule of Contributions – Other Postemployment Benefits, Schedule of Investment Returns – Other Postemployment Benefits, Schedules of Pension Contributions and Budgetary Comparison Information, on pages 48 through 54 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 February 5, 2019, 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
February 5, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

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, 2018.

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 \$35.7 million (net position). Of this amount unrestricted net position of \$3.8 million may be used to meet the government's ongoing obligations to citizens and creditors.
- The total cost of all Town services for fiscal 2018 was approximately \$28.4 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$4.5 million, or approximately 20.4% 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. The Town implemented a new accounting principle, GASB Statement 75, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, for fiscal year 2018. The effect of this implementation is detailed in Note 16 and beginning net position has been restated accordingly. Prior year amounts in the tables below have not been restated for this implementation.

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, 2018

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 postclosure monitoring. Additional amounts held as agency accounts relate primarily to 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, 2018

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 Changes in the Town's Net OPEB Liability and Related Ratios, the Schedule of Contributions – Other Postemployment Benefits, the Schedule of Investment Returns – 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 \$18.9 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 \$16.9 million for the governmental and business-type activities, the previous year. Certain amounts have been restated to conform to current year presentation, in the following tables:

	FY2018	FY2017	FY2018	FY2017
	Governmental	Governmental	Business-type	Business-type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Current assets	\$ 15,371,815	\$ 14,425,197	\$ 12,821,680	\$ 12,789,373
Capital assets, net	<u>24,911,273</u>	<u>25,372,082</u>	<u>31,846,396</u>	<u>32,201,681</u>
Total assets	40,283,088	39,797,279	44,668,076	44,991,054
Deferred outflows of resources	167,368	956,217	24,771	146,312
Current liabilities	2,704,087	2,654,616	5,878,211	4,944,903
Long term liabilities	<u>16,282,647</u>	<u>18,148,407</u>	<u>21,495,065</u>	<u>22,956,652</u>
Total liabilities	18,986,734	20,803,023	27,373,276	27,901,555
Deferred inflows of resources	<u>2,604,644</u>	<u>361,201</u>	<u>457,441</u>	<u>371,679</u>
Net investment in capital assets	20,625,705	20,716,724	7,461,345	8,875,309
Restricted	3,802,076	3,818,728		
Unrestricted	<u>(5,568,703)</u>	<u>(4,946,180)</u>	<u>9,400,785</u>	<u>7,988,823</u>
Total net position	<u>\$ 18,859,078</u>	<u>\$ 19,589,272</u>	<u>\$ 16,862,130</u>	<u>\$ 16,864,132</u>

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

Included within the governmental activity current assets, unrelated to capital assets, are \$3.5 million in cash, \$9.0 million in investments and \$2.8 million of receivables, net of allowances for uncollectible amounts. Business-type activity current assets include \$7.2 million in cash and \$5.6 million for water and sewer charges receivable, inclusive of \$4.2 million of sewer betterments.

Deferred outflows of resources for governmental activities and business-type activities were \$167,000 and \$25,000 respectively. These amounts relate to the Town's proportionate share of pension amount related to the changes in proportion and difference between employer contributions and proportionate share of pension contributions along with the difference between expected and actual plan experience.

Governmental activities current liabilities of \$2.7 million consist of \$754,000 of accounts payable and other current liabilities, \$962,000 of salaries, withholdings and benefits payable, \$19,000 of accrued interest, \$500,000 of notes payable and \$468,000 of principal on long term debt due in fiscal year 2019. Business-type activities current liabilities of \$5.9 million include \$56,000 of accounts payable and other current liabilities, \$214,000 of accrued interest, \$4.4 million of notes payable and \$1.2 million of principal on long term debt due in fiscal year 2019.

Governmental activity noncurrent liabilities consisted primarily of \$3.3 million in general obligation bonds payable (exclusive of amounts due in the current period), \$6.7 million of net pension liability, \$5.7 million of net other postemployment benefits liability, \$360,000 for estimated post-closure landfill monitoring costs and \$320,000 of compensated absences. Business-type activities noncurrent liabilities consisted mainly of bonds payable of \$20.2 million (exclusive of amounts due in fiscal year 2019), of which \$4.6 million and \$15.6 million relate to the water and sewer operations, respectively. The Town also allocated \$996,000 of the net pension liability to the business-type activities, allocating approximately \$460,000 to the water fund and \$536,000 to the sewer fund. Additionally, the Town allocated 224,000 of other postemployment benefits liability to business-type activities, allocating approximately \$158,000 to the water fund and \$66,000 to the sewer fund.

Deferred inflows of resources for governmental activities of \$2.6 million consist of \$447,000 of change in the Town's pension plan proportion, changes in actuarial assumptions and differences between projected and actual net investment income, \$2.1 million as a result of the difference between expected and actual experience and investment earnings related to other postemployment benefits and \$85,000 of unamortized bond premiums. Deferred inflows of resources for the business-type activities of \$457,000 consisted of \$66,000, \$81,000 and \$310,000 of these same amounts, respectively.

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 \$28.1 million, or 78.6% 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 10.6% 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 \$5.6 million in the governmental activities and an unrestricted balance of \$9.4 million in the business-type activities.

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

	FY2018	FY2017	FY2018	FY2017
	Governmental	Governmental	Business-type	Business-type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Revenues:				
Charges for services	\$ 1,872,173	\$ 1,758,438	\$ 4,449,720	\$ 4,385,605
Operating grants and contributions	2,611,641	2,684,188	155,554	159,948
Capital grants and contributions	171,466	625,111		
General revenues:				
Property taxes	18,485,097	17,757,207		
Excise taxes	938,227	892,500		
Penalties and interest	151,286	118,019		
Grants, contributions and other receipts not restricted	533,293	478,048		
Interest income	11,082	60,760	9,238	7,595
Total revenue	<u>24,774,265</u>	<u>24,374,271</u>	<u>4,614,512</u>	<u>4,553,148</u>
Expenses:				
General government	1,953,690	2,097,994		
Public safety	3,760,346	3,689,015		
Education	11,614,781	11,435,364		
Public works	1,282,980	1,458,350	4,612,210	4,144,606
Human services	475,407	384,477		
Culture and recreation	544,427	716,806		
Employee benefits and other costs	3,947,572	4,404,302		
Interest and other charges	114,780	134,803		
State and county assessments	82,009	92,600		
	<u>23,775,992</u>	<u>24,413,711</u>	<u>4,612,210</u>	<u>4,144,606</u>
Change in net position	<u>\$ 998,273</u>	<u>\$ (39,440)</u>	<u>\$ 2,302</u>	<u>\$ 408,542</u>

Governmental activities:

Revenues:

- Property taxes of \$18.5 million represent 74.6% 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 2018 by roughly \$442,000.
- Operating grants and contributions make up the second largest revenue source, representing 10.5% of the Town's total governmental activity revenue. This consisted of grants, contributions and other receipts associated with governmental activities. This was reasonably consistent with the previous year.
- Charges for services represented 7.6% 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 a prior year State grant which was used to purchase land.

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

Revenues (continued):

Business-type Activities:

- Business-type activities' revenues remained consistent from year to year. Water rates incrementally increased from the prior year and sewer rates increased 4-5%, depending on usage levels. Overall, both water and sewer usage was slightly lower than the previous year. Sewer service commitments increased by over \$100,000 due to an increase in new construction.

Expenses:

Governmental activities:

- General government expenses decreased in various categories, including other governmental funds.
- Education expenses increased primarily due to the increase in teacher payroll.
- Public works expenses decreased primarily due to sick and vacation buybacks being paid out of the water and sewer enterprise funds, which were historically recognized as expenses in governmental activities. For more information, see Note 11B on page 41 of this report.
- Culture and recreation expenses decreased due to higher prior year operating grant expenses.
- Employee benefits and other costs decreased due to lower pension expenses in the current year.

Business-type activities:

- Public works expenses (water and sewer) increase is primarily due to higher water/sewer legal costs and higher sewer inflow and infiltration costs in the current year.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$10.4 million. Approximately \$3.0 million, or 28.8% of this total amount constitutes fund balance restricted for specific purposes. Additionally, approximately \$2.4 million, or 22.7% has been reported as committed, \$1.1 million, or 10.6% has been reported as assigned, and the remaining \$4.0 million, or 37.9% 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 three 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, 2018, the Town maintained an aggregate stabilization fund balances of \$2.7 million. The land acquisition fund reported a balance of approximately \$379,000. 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 20.4% and 20.2%, of expenditures and revenues respectively. This represents a slight decrease over the previous year in which unassigned fund balance represented 21.4% and 21.9% of total general fund expenditures and revenues, respectively.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$23.6 million and the final amended expenditure budget of \$22.6 million is comprised primarily of \$1.3 million of encumbrances and continuing appropriations (warrant articles) carried into future periods, offset by approximately \$300,000 of free cash appropriations during Special Town Meetings.

TOWN OF MARION, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for governmental activities as of June 30, 2018 is \$24.9 million, which was net of accumulated depreciation of \$18.4 million. Town's investment in capital assets for business-type activities (water and sewer funds) as of June 30, 2018 is \$31.8 million, which is net of accumulated depreciation of \$10.6 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, 2018.

<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	0.1	0.9
Construction and infrastructure	14.6	30.1
Machinery, equipment and licensed vehicles	<u>1.2</u>	<u>0.5</u>
Total capital assets	<u>\$ 24.9</u>	<u>\$ 31.9</u>

Current year governmental activity additions to capital assets totaled about \$535,000, consisting primarily of construction in progress relating to recreation – bike path construction and additions of, Town Hall boiler replacement, along with various departmental equipment and vehicles purchases. The business-type activities additions to capital assets aggregated approximately \$598,000 comprised mainly of sewer projects – construction in progress.

Long-term debt - At the end of the current fiscal year, the Town's governmental activities had bonded debt outstanding of \$3.7 million. The Town's business-type activities had bonded debt outstanding of \$21.5 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 September 2018.

Economic Factors and Next Year's Budgets and Rates

- The Town's fiscal year 2019 tax levy was approved at \$19.0 million, increasing approximately \$900,000, or 5.4% over fiscal year 2018. The Town maintained a single tax rate for fiscal year 2019, amounting to \$11.03 per thousand dollars of property valuation, compared to \$11.45 in the fiscal year 2018. The decrease in the tax rate and increase in the tax levy is primarily due to a 10% increase in total residential property valuation, year over year.
- The Town's total appropriations approved during the May 2018 Annual Town Meeting were \$29.1 million. This was consistent with fiscal year 2018.

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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash, cash equivalents and investments	\$ 12,508,538	\$ 7,189,289	\$ 19,697,827
Receivables, net of allowance for uncollectibles	2,808,317	5,632,391	8,440,708
Due from agency fund	54,960		54,960
Noncurrent assets:			
Capital assets, net of accumulated depreciation	24,911,273	31,846,396	56,757,669
Total assets	40,283,088	44,668,076	84,951,164
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Associated with net pension liability	167,368	24,771	192,139
Total deferred outflows of resources	167,368	24,771	192,139
Total assets and deferred outflows of resources	\$ 40,450,456	\$ 44,692,847	\$ 85,143,303
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 753,978	\$ 56,321	\$ 810,299
Salaries, withholdings and benefits payable	962,400		962,400
Accrued interest	19,409	213,503	232,912
Notes payable	500,000	4,383,056	4,883,056
Noncurrent liabilities:			
Due within one year	468,300	1,225,331	1,693,631
Due in more than one year	16,282,647	21,495,065	37,777,712
Total liabilities	18,986,734	27,373,276	46,360,010
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Associated with pension liability	446,918	66,145	513,063
Associated with net OPEB liability	2,072,758	81,443	2,154,201
Unamortized bond premiums	84,968	309,853	394,821
Total deferred inflows of resources	2,604,644	457,441	3,062,085
<u>NET POSITION</u>			
Net investment in capital assets	20,625,705	7,461,345	28,087,050
Restricted	3,802,076		3,802,076
Unrestricted	(5,568,703)	9,400,785	3,832,082
Total net position	18,859,078	16,862,130	35,721,208
Total liabilities, deferred inflows of resources and net position	\$ 40,450,456	\$ 44,692,847	\$ 85,143,303

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

TOWN OF MARION, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary government							
Governmental activities:							
General government	\$ 1,953,690	\$ 332,483	\$ 20,064	\$	\$ (1,601,143)	\$	\$ (1,601,143)
Public safety	3,760,346	876,896	83,418		(2,800,032)		(2,800,032)
Education	11,614,781	321,791	1,174,798		(10,118,192)		(10,118,192)
Public works	1,282,980	110,839	37,532	171,466	(963,143)		(963,143)
Human services	475,407	366	93,086		(381,955)		(381,955)
Culture and recreation	544,427	229,798	25,258		(289,371)		(289,371)
Employee benefits and other insurance	3,947,572		1,177,485		(2,770,087)		(2,770,087)
Interest, issuance costs and other charges	114,780				(114,780)		(114,780)
State and county assessments	82,009				(82,009)		(82,009)
Total governmental activities	<u>23,775,992</u>	<u>1,872,173</u>	<u>2,611,641</u>	<u>171,466</u>	<u>(19,120,712)</u>		<u>(19,120,712)</u>
Business-type activities:							
Water	1,731,774	1,946,859				215,085	215,085
Sewer	2,880,436	2,502,861	155,554			(222,021)	(222,021)
Total business-type activities	<u>4,612,210</u>	<u>4,449,720</u>	<u>155,554</u>			<u>(6,936)</u>	<u>(6,936)</u>
Total primary government	<u>\$ 28,388,202</u>	<u>\$ 6,321,893</u>	<u>\$ 2,767,195</u>	<u>\$ 171,466</u>	<u>(19,120,712)</u>	<u>(6,936)</u>	<u>(19,127,648)</u>
General revenues:							
Property taxes, net of allowances for uncollectibles					18,485,097		18,485,097
Excise taxes, net of allowance for uncollectibles					938,227		938,227
Penalties and interest on taxes					151,286		151,286
Grants, contributions and other not restricted to specific programs					533,293		533,293
Investment income					11,082	9,238	20,320
Total general revenues					<u>20,118,985</u>	<u>9,238</u>	<u>20,128,223</u>
Change in net position					998,273	2,302	1,000,575
Net position - beginning of year, restated					17,860,805	16,859,828	34,720,633
Net position - end of year					<u>\$ 18,859,078</u>	<u>\$ 16,862,130</u>	<u>\$ 35,721,208</u>

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

TOWN OF MARION, MASSACHUSETTS
Balance Sheet - Governmental Funds
June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash, cash equivalents and investments	\$ 9,014,289	\$ 3,494,249	\$ 12,508,538
Receivables	1,781,512	1,096,805	2,878,317
Due from agency fund	54,960		54,960
Interfund receivables	15,983		15,983
Total assets	\$ 10,866,744	\$ 4,591,054	\$ 15,457,798
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 606,152	\$ 147,826	\$ 753,978
Salaries, withholdings and benefits payable	962,400		962,400
Notes payable		500,000	500,000
Interfund payable		15,983	15,983
Total liabilities	1,568,552	663,809	2,232,361
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred revenue	1,706,209	1,080,823	2,787,032
Total deferred inflows of resources	1,706,209	1,080,823	2,787,032
<u>FUND BALANCES</u>			
Restricted	39,771	2,968,405	3,008,176
Committed	2,358,714	5,765	2,364,479
Assigned	736,324	372,277	1,108,601
Unassigned	4,457,174	(500,025)	3,957,149
Total fund balances	7,591,983	2,846,422	10,438,405
Total liabilities, deferred inflows of resources and fund balances	\$ 10,866,744	\$ 4,591,054	\$ 15,457,798

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

Total fund balances of governmental funds	\$ 10,438,405
Capital assets of \$43,324,521 net of accumulated depreciation of \$18,413,248, used in governmental activities are not financial resources and are not reported in funds.	24,911,273
Reporting on a full accrual basis requires full accrual of revenue, net of an estimate for uncollectible accounts.	2,717,032
Certain deferred outflows of resources are reported on a full accrual basis.	167,368
Certain deferred inflows of resources are accrued as revenue on a full accrual basis and not in funds.	(2,604,644)
Long-term liabilities are not due and payable in the current period and are not included in funds.	(16,750,947)
Reporting on a full accrual basis requires associated interest.	(19,409)
Net position of governmental activities	\$ 18,859,078

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, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 17,969,179	\$ 289,206	\$ 18,258,385
Excise taxes	879,575	37,420	916,995
Penalties and interest	148,697	2,589	151,286
Fines and fees	194,327		194,327
Charges for services	405,702	675,822	1,081,524
Investment earnings (loss)	24,244	(13,256)	10,988
Departmental, contributions and other	415,752	162,981	578,733
Intergovernmental	2,011,995	531,960	2,543,955
Total revenues	<u>22,049,471</u>	<u>1,686,722</u>	<u>23,736,193</u>
Expenditures			
General government	1,677,489	416,406	2,093,895
Public safety	3,535,795	124,597	3,660,392
Education	10,768,383	481,762	11,250,145
Public works	1,264,818	26,501	1,291,319
Human services	385,274	87,212	472,486
Culture and recreation	342,117	263,468	605,585
State and county assessments	82,009		82,009
Employee benefits and other costs	3,263,094		3,263,094
Debt Service:			
Principal	426,900		426,900
Interest and other charges	123,737		123,737
Total expenditures	<u>21,869,616</u>	<u>1,399,946</u>	<u>23,269,562</u>
Revenues over (under) expenditures	179,855	286,776	466,631
Other financing sources (uses)			
Transfers in	274,300	30,000	304,300
Transfers out	(30,000)	(274,300)	(304,300)
Total other financing sources and (uses)	<u>244,300</u>	<u>(244,300)</u>	<u></u>
Revenues and other financing sources over (under) expenditures and other financing uses	424,155	42,476	466,631
Fund balance, beginning of year	<u>7,167,828</u>	<u>2,803,946</u>	<u>9,971,774</u>
Fund balance, end of year	<u>\$ 7,591,983</u>	<u>\$ 2,846,422</u>	<u>\$ 10,438,405</u>

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

TOWN OF MARION, 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, 2018

Revenues and other financing sources over expenditures and other financing uses	\$ 466,631
<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	535,382
Depreciation recorded for the fiscal year	(996,191)
<p>Certain deferred outflows/inflows of resources are recognized on the government-wide basis to be amortized over future periods.</p>	
Net change in deferred outflows/inflows associated with pension	(966,308)
Net change in deferred outflows/inflows associated with OPEB	(2,072,758)
<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	469,643
<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	426,900
<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	8,957
<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	1,763,876
Net pension liability	1,159,141
Estimated postclosure landfill monitoring costs	15,000
Compensated absences	188,000
	188,000
Change in net position of governmental activities	\$ <u>998,273</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, 2018

	Business-typeActivities		
	Water	Sewer	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,726,393	\$ 3,462,896	\$ 7,189,289
Receivables, net of allowance for uncollectibles	487,842	5,144,549	5,632,391
Noncurrent assets:			
Capital assets, net of accumulated depreciation	9,582,104	22,264,292	31,846,396
Total assets	13,796,339	30,871,737	44,668,076
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Associated with net pension liability	11,265	13,506	24,771
Total deferred outflows of resources	11,265	13,506	24,771
Total assets and deferred outflows of resources	<u>\$ 13,807,604</u>	<u>\$ 30,885,243</u>	<u>\$ 44,692,847</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 2,663	\$ 53,658	\$ 56,321
Accrued interest	24,661	188,842	213,503
Notes payable	1,918,500	2,464,556	4,383,056
Noncurrent liabilities:			
Due within one year	444,600	780,731	1,225,331
Due in more than one year	5,307,850	16,187,215	21,495,065
Total liabilities	7,698,274	19,675,002	27,373,276
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Associated with net pension liability	30,081	36,064	66,145
Associated with net OPEB liability	57,348	24,095	81,443
Unamortized bond premiums	106,201	203,652	309,853
Total deferred inflows of resources	193,630	263,811	457,441
<u>NET POSITION</u>			
Net investment in capital assets	4,187,334	3,274,011	7,461,345
Unrestricted	1,728,366	7,672,419	9,400,785
Total net position	5,915,700	10,946,430	16,862,130
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,807,604</u>	<u>\$ 30,885,243</u>	<u>\$ 44,692,847</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
For the Year Ended June 30, 2018

	Business-type Activities		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 1,903,623	\$ 2,460,717	\$ 4,364,340
Penalties and interest and other	43,236	42,144	85,380
Total operating revenues	1,946,859	2,502,861	4,449,720
Operating expenses:			
Salaries, wages and benefits	476,195	520,983	997,178
Contracted services	370,695	545,582	916,277
Supplies and other expenses	477,967	466,760	944,727
Depreciation	208,752	744,322	953,074
Total operating expenses	1,533,609	2,277,647	3,811,256
Operating income (loss)	413,250	225,214	638,464
Non operating revenues (expenses)			
Interest income	4,840	4,398	9,238
Intergovernmental debt subsidies		155,554	155,554
Interest expense and debt charges	(198,165)	(602,789)	(800,954)
Total non operating revenue, net	(193,325)	(442,837)	(636,162)
Change in net position	219,925	(217,623)	2,302
Net position at beginning of year, restated	5,695,775	11,164,053	16,859,828
Net position at end of year	\$ 5,915,700	\$ 10,946,430	\$ 16,862,130

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, 2018

	<u>Business-type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,898,954	\$ 2,764,409	\$ 4,663,363
Payments to vendors	(696,987)	(994,161)	(1,691,148)
Payments to employees and related benefits	<u>(673,835)</u>	<u>(722,986)</u>	<u>(1,396,821)</u>
Net cash provided by operating activities	528,132	1,047,262	1,575,394
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(179,823)	(417,966)	(597,789)
Proceeds from the issuance of temporary debt	1,918,500	2,464,556	4,383,056
Principal payments on bonds and notes	(2,471,900)	(1,986,311)	(4,458,211)
Interest payments and related costs	<u>(206,279)</u>	<u>(459,459)</u>	<u>(665,738)</u>
Net cash used for capital and related activities	(939,502)	(399,180)	(1,338,682)
Cash flows from investing activities			
Interest income	<u>4,840</u>	<u>4,398</u>	<u>9,238</u>
Net change in cash and cash equivalents	(406,530)	652,480	245,950
Cash and cash equivalents at beginning of year	<u>4,132,923</u>	<u>2,810,416</u>	<u>6,943,339</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,726,393</u></u>	<u><u>\$ 3,462,896</u></u>	<u><u>\$ 7,189,289</u></u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 413,250	\$ 225,214	\$ 638,464
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	208,752	744,322	953,074
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Receivables, net of allowance for collectibles	(47,905)	261,548	213,643
Deferred outflows of resources associated with pension	55,437	66,104	121,541
Accounts payable	(45,192)	(171,933)	(217,125)
Net OPEB liability	(49,142)	(21,424)	(70,566)
Net pension liability	(79,700)	(95,294)	(174,994)
Compensated absences	4,000	1,000	5,000
Deferred inflows of resources associated with pension	11,284	13,630	24,914
Deferred inflows of resources associated with OPEB	<u>57,348</u>	<u>24,095</u>	<u>81,443</u>
Total adjustments	<u>114,882</u>	<u>822,048</u>	<u>936,930</u>
Net cash provided by operating activities	<u><u>\$ 528,132</u></u>	<u><u>\$ 1,047,262</u></u>	<u><u>\$ 1,575,394</u></u>
Schedule of non-cash activities related to capital and related financing:			
Amortization of debt premiums	\$ 7,867	\$ 12,728	\$ 20,595
CWT Interest subsidy	\$	\$ 155,554	\$ 155,554

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

TOWN OF MARION, MASSACHUSETTS
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2018

	OPEB Trust Fund	Landfill Postclosure Fund	Agency Accounts
<u>ASSETS</u>			
Cash and investments	\$ 1,373,984	\$ 426,461	\$ 25,164
Amounts due from others			55,018
Total assets	\$ 1,373,984	\$ 426,461	\$ 80,182
<u>LIABILITIES</u>			
Accounts payable	\$	\$	\$ 627
Due to the General Fund			54,960
Amounts held in escrow			24,595
Total liabilities			\$ 80,182
<u>NET POSITION</u>			
Restricted for other postemployment benefits	1,373,984		
Restricted for landfill postclosure monitoring		426,461	
Total liabilities and net position	\$ 1,373,984	\$ 426,461	

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, 2018

	OPEB Trust Fund	Landfill Postclosure Fund
Additions		
Employer contributions	\$ 442,591	\$
Investment income	66,592	402
Total additions	509,183	402
Deductions		
Engineering costs		16,483
Benefit payments	202,591	
Total deductions	202,591	16,483
Change in net position	306,592	(16,081)
Net position at beginning of year	1,067,392	442,542
Net position at end of year	\$ 1,373,984	\$ 426,461

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, 2018

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 2018 was \$163,644.

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 2018 Payments</u>
Old Rochester Regional School District 135 Marion Road Mattapoisett, MA 02739	To provide secondary education	\$ 4,431,698
Upper Cape Cod Regional Technical High School 220 Sandwich Rd, Bourne, MA 02532	To provide secondary vocational education	\$ 314,652
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	\$ 223,359
Southeastern Massachusetts Educational Collaborative 12 Wellesley Road New Bedford, MA 02748	To provide specialized education to students of member communities	\$ 139,773

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY 2018 Payments</u>
Carver, Marion, and Wareham Regional Refuse Disposal District 2 Spring Street Marion, MA 02738	To provide refuse disposal facilities	\$ 25,000
Marion-Rochester Regional Health District 2 Spring Street Marion, MA 02738	To provide regional health services	\$ 56,330

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 7.0%.

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.

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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.

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

- 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, pursuant to Massachusetts regulations.

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.
- OPEB Trust fund accounts for resources held in trust for providing future benefits for "other postemployment 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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

- Landfill Postclosure fund accounts for resources held specifically for landfill postclosure monitoring. See Note 13.
- Agency accounts are used to hold funds on behalf of parties other than the Town. Agency accounts are custodial in nature and do not involve measurement of results of operations. Police details and certain escrow accounts are reported as agency accounts.

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.

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 within "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.

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 collectable 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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 expenditures, within their respective function, 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.

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.

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

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.

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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.

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.

O. Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's OPEB Benefit Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position, have been recognized on the same basis as they are reported by the Plan. For this purpose, the Plan recognized benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, other than money market accounts, which are reported at cost.

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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.

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 restricted, committed, assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2018, 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	\$	\$ 314,014	\$ 314,014
Public safety		385,584	385,584
Education		266,336	266,336
Public works		290,188	290,188
Human services		82,916	82,916
Culture & recreation		388,872	388,872
Debt service	39,771		39,771
Community preservation:			
Community housing		262,974	262,974
Open space and recreation		76,116	76,116
Historic		181,720	181,720
Other		719,685	719,685
subtotal	39,771	2,968,405	3,008,176

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Committed:			
General government	\$ 466,429	\$	\$ 466,429
Public safety	309,151		309,151
Education	352,749		352,749
Public works	232,049		232,049
Employee benefits	360,000		360,000
Land acquisition	378,851		378,851
Capital outlay	<u>259,485</u>	<u>5,765</u>	<u>265,250</u>
subtotal	2,358,714	5,765	2,364,479
Assigned:			
General government	52,252	158,623	210,875
Public safety	8,963		8,963
Education	21,984		21,984
Public works	178,673	105,257	283,930
Human services		108,244	108,244
Culture & recreation	1,081	153	1,234
FY19 operating budget	<u>473,371</u>		<u>473,371</u>
subtotal	736,324	372,277	1,108,601
Unassigned:	<u>4,457,174</u>	<u>(500,025)</u>	<u>3,957,149</u>
Total fund balance	<u>\$ 7,591,983</u>	<u>\$ 2,846,422</u>	<u>\$ 10,438,405</u>

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, 2018.

Stabilization -general	\$ 2,158,106
Stabilization - school	311,333
Stabilization - capital	<u>259,485</u>
Total	<u>\$ 2,728,924</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 \$378,851 at June 30, 2018. It has been reported as committed for land acquisition in the above table.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

The Town reported deficit unassigned fund balances of \$500,025 in other governmental funds consisting primarily of over-expenditures of specific funds as of June 30, 2018. These deficit balances are as follows:

Chapter 90 Highway	\$	(170)
Fire Truck Capital Project		<u>(499,855)</u>
Total deficit fund balance	\$	<u>(500,025)</u>

The Chapter 90 highway deficit will be funded through future billings to the State and the fire truck capital project deficit will be funded through the issuance of long term debt.

D. Restricted Net Position

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

Community Preservation Act fund	\$	1,561,578
Land acquisition		378,851
Waterways fund		322,825
School building lease fund		106,812
Marion affordable housing fund		108,244
Music Hall restoration		64,689
Other gifts and donations		175,553
Debt service		39,771
Other grants, revolving and special revenue funds		<u>1,043,753</u>
Total restricted net position	\$	<u>3,802,076</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, 2018 cash deposits totaled \$11,326,278 and had a carrying amount of \$10,716,845. Of the deposit amounts, approximately \$5.3 million was insured and \$6.0 million was exposed to custodial credit risk at June 30, 2018 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts primarily represents outstanding checks.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

The Town's governmental activities' investments as of June 30, 2018 consisted of the following:

<u>Type of investment</u>	<u>Value</u>	<u>Measurement</u>	<u>Rating</u>	<u>Maturities</u>	
				<u>1 year</u>	
				<u>or less</u>	<u>1-5 years</u>
Money markets	\$ 101,173	amortized cost	unrated	\$ N/A	\$ N/A
MMDT	128,357	amortized cost	unrated	N/A	N/A
Certificates of deposit	5,421,348	Level 1	unrated	4,684,454	736,894
Mutual funds-fixed income	307,089	Level 1	unrated	N/A	N/A
Corporate bonds	892,073	Level 1	AA+ - BBB+		892,073
Domestic stock	472,348	Level 1	not applicable	N/A	N/A
US Treasury/agencies bonds	<u>1,722,438</u>	Level 1	AA+	<u>722,843</u>	<u>999,595</u>
Total	<u>\$ 9,044,826</u>			<u>\$ 5,407,297</u>	<u>\$ 2,628,562</u>

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

OPEB Trust fund:

<u>Type of investment</u>	<u>Value</u>	<u>Measurement</u>	<u>Rating</u>
Money markets	\$ 3,019	amortized cost	unrated
Mutual funds-fixed income	432,083	Level 1	unrated
Mutual funds-equity	938,882	Level 1	unrated
Total	<u>\$ 1,373,984</u>		

Maturities are not applicable to the above investments.

Landfill Postclosure fund:

<u>Type of investment</u>	<u>Value</u>	<u>Measurement</u>	<u>Rating</u>	<u>Maturities</u>		
				<u>1 year</u>		
				<u>or less</u>	<u>1-5 years</u>	<u>6-10 years</u>
Money markets and other	\$ 5,659	amortized cost	unrated	\$ N/A	\$ N/A	\$ N/A
Mutual funds-fixed income	6,772	Level 1	unrated	N/A	N/A	N/A
U.S. Government and agencies bonds	<u>375,350</u>	Level 1	AA+	<u>175,373</u>	<u>172,454</u>	<u>27,523</u>
Total	<u>\$ 387,781</u>			<u>\$ 175,373</u>	<u>\$ 172,454</u>	<u>\$ 27,523</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 mutual funds are not rated as to credit risk. The Town's investment policy provides certain provisions for addressing credit risk.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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

	<u>Rating</u>	<u>1-5 years</u>	<u>Total</u>
Southern Co Note 1.8500%	BBB+	\$ 113,857	\$ 113,857
Georgia Power Co Note 2.000%	A-	78,666	78,666
Bank of America Corp 2.25%	A-	113,422	113,422
Coca Cola Co Note 1.87500%	A+	215,035	215,035
GE Capital International Fdg 2.342%	A	56,694	56,694
Manufacturer & Traders Note 2.625%	A	88,595	88,595
Wells Fargo New Note 2.100%	A-	<u>225,804</u>	<u>225,804</u>
Total		<u>\$ 892,073</u>	<u>\$ 892,073</u>

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 (issuer) 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, 2018, 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	\$ 1,060,833	\$ (7,000)	\$ 1,053,833
Tax liens	277,157		277,157
Motor vehicle and boat excise	170,550	(63,000)	107,550
Departmental - ambulance	283,498		283,498
Intergovernmental:			
MA highway awards	1,070,296		1,070,296
State and federal grants	<u>15,983</u>		<u>15,983</u>
Total governmental activities	<u>\$ 2,878,317</u>	<u>\$ (70,000)</u>	<u>\$ 2,808,317</u>

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

<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	\$ 487,842	\$	\$ 487,842
Sewer enterprise fund:			
User charges, fees and liens	\$ 620,518		\$ 620,518
Betterments	4,201,280		4,201,280
MA Clean water Trust subsidies	322,751		322,751
Total sewer	<u>\$ 5,144,549</u>	<u>\$</u>	<u>\$ 5,144,549</u>

Governmental activities' intergovernmental receivables include \$1,070,296 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 \$4.2 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.

Agency accounts report amount, due from third parties, for police details of \$55,018 at June 30, 2018.

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, 2018:

	<u>Deferred Outflows of Resources</u>		
	<u>Deferred Outflows of Resources</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Governmental activities:			
Associated with net pension liability:			
Differences between expected and actual experience	\$ 145,193		
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>22,175</u>		
Total associated with net pension liability	<u>167,368</u>		
Total governmental activities	<u>\$ 167,368</u>		
Business-type activities:			
Associated with net pension liability:			
Differences between expected and actual experience	\$ 9,772	\$ 11,717	\$ 21,489
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,493</u>	<u>1,789</u>	<u>3,282</u>
Total associated with net pension liability	<u>11,265</u>	<u>13,506</u>	<u>24,771</u>
Total business-type activities	<u>\$ 11,265</u>	<u>\$ 13,506</u>	<u>\$ 24,771</u>

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

	<u>Deferred Inflows of Resources</u>
Governmental activities:	
Associated with net pension liability:	
Change in assumptions	\$ 256,161
Net difference between projected and actual investment earnings on pension plan investments	158,626
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>32,131</u>
Total associated with net OPEB liability	446,918
Associated with net OPEB liability:	
Differences between expected and actual experience	2,053,960
Net difference between projected and actual investment earnings on OPEB plan investments	<u>18,798</u>
Total associated with net OPEB liability	2,072,758
Unamortized bond premiums	<u>84,968</u>
Total governmental activities	<u>\$ 2,604,644</u>

	<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	\$ 17,241	\$ 20,671	\$ 37,912
Net difference between projected and actual investment earnings on pension plan investments	10,677	12,800	23,477
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>2,163</u>	<u>2,593</u>	<u>4,756</u>
Total associated with net pension liability	30,081	36,064	66,145
Associated with net OPEB liability:			
Differences between expected and actual experience	56,828	23,876	80,704
Net difference between projected and actual investment earnings on pension plan investments	<u>520</u>	<u>219</u>	<u>739</u>
Total associated with net OPEB liability	57,348	24,095	81,443
Unamortized bond premiums	<u>106,201</u>	<u>203,652</u>	<u>309,853</u>
Total business-type activities	<u>\$ 193,630</u>	<u>\$ 263,811</u>	<u>\$ 457,441</u>

	<u>Deferred Inflows of Resources</u>
Governmental funds:	
Deferred revenue:	
Property taxes, surcharges and personal property	\$ 974,335
Tax liens	277,157
Motor vehicle and boat excise	170,550
Departmental - ambulance	283,498
Departmental - other	11,196
Intergovernmental - MA highway awards	<u>1,070,296</u>
Total governmental funds	<u>\$ 2,787,032</u>

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	2,653,870			2,653,870
Construction in progress		89,683		89,683
Sub-total	9,040,814	89,683		9,130,497
Capital assets being depreciated:				
Land improvements	368,420			368,420
Construction and improvements	21,484,258	295,775		21,780,033
Infrastructure	5,043,405	7,486		5,050,891
Machinery and equipment	2,220,432	57,628		2,278,060
Licensed vehicles	4,631,810	84,810		4,716,620
Sub-total	33,748,325	445,699		34,194,024
Less accumulated depreciation:				
Land improvements	324,328	13,657		337,985
Construction and improvements	9,099,856	519,280		9,619,136
Infrastructure	2,487,326	203,365		2,690,691
Machinery and equipment	1,877,640	78,372		1,956,012
Licensed vehicles	3,627,907	181,517		3,809,424
Sub-total	17,417,057	996,191		18,413,248
Governmental capital assets, net	\$ 25,372,082	\$ (460,809)	\$	\$ 24,911,273

	<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	176,013		196,446
Sub-total	222,670	176,013		398,683
Capital assets being depreciated:				
Land improvements	137,803			137,803
Construction and improvements	11,065,745	3,810		11,069,555
Machinery and equipment	360,960			360,960
Licensed vehicles	249,694			249,694
Sub-total	11,814,202	3,810		11,818,012

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

<u>Business-type activities (continued):</u>	<u>Beginning</u>		<u>Transfers &</u>	<u>Ending</u>
<u>Water enterprise (continued):</u>	<u>Balances</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances</u>
Less accumulated depreciation:				
Land improvements	\$ 87,928	\$ 5,250	\$	\$ 93,178
Construction and improvements	1,885,458	175,871		2,061,329
Machinery and equipment	288,538	11,806		300,344
Licensed vehicles	163,915	15,825		179,740
Sub-total	<u>2,425,839</u>	<u>208,752</u>		<u>2,634,591</u>
Water enterprise capital assets, net	<u>\$ 9,611,033</u>	<u>\$ (28,929)</u>	<u>\$</u>	<u>\$ 9,582,104</u>

	<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	417,966		668,897
Sub-total	<u>400,248</u>	<u>417,966</u>		<u>818,214</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	31,064	1,815		32,879
Construction and improvements	6,745,131	709,472		7,454,603
Machinery and equipment	408,526	21,846		430,372
Licensed vehicles	76,674	11,189		87,863
Sub-total	<u>7,261,395</u>	<u>744,322</u>		<u>8,005,717</u>
Sewer enterprise capital assets, net	<u>\$ 22,590,648</u>	<u>\$ (326,356)</u>	<u>\$</u>	<u>\$ 22,264,292</u>

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

Governmental activities:	
General government	\$ 30,422
Public safety	316,415
Education	363,636
Public works	253,147
Human services	6,921
Culture and recreation	<u>25,650</u>
Total depreciation expense - governmental activities	<u>\$ 996,191</u>

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Business-type activities:

Water		208,752
Sewer		<u>744,322</u>
Total depreciation expense - business-type activities		<u>\$ 953,074</u>

Note 8. Interfund Balances and Activity

The general fund was due \$15,983 from other governmental funds for deficit spending at June 30, 2018. The general fund was also due \$54,960 from agency accounts for police details.

Interfund transfers for the fiscal year ended June 30, 2018, consisted of the following:

<u>Purpose</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
Wetland protection fees	\$ 3,500	\$ (3,500)
Dog fund - animal control	3,500	(3,500)
State aid to library fund	5,300	(5,300)
Chester Vose fund - reduction taxes	2,000	(2,000)
BAN paydown for fire engine capital project	(30,000)	30,000
Waterways fund - fund marine resources	<u>260,000</u>	<u>(260,000)</u>
Net transfers	<u>\$ 244,300</u>	<u>\$ (244,300)</u>

During fiscal year 2018, the Town transferred \$25,000 into the general stabilization fund. Additionally, the Town transferred \$100,000 into both the capital stabilization fund and the school stabilization fund. The Town transferred \$240,000 into the OPEB trust fund to continue to fund future other postemployment benefits. This amount has been reflected as an employer contribution in the OPEB trust fund and is included in employee benefits for financial reporting purposes, in the general fund.

Note 9. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2018 for the Town's governmental activities.

<u>Purpose</u>	<u>(restated) Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental activities:					
Refunding issue, dated 6/30/2013, 2.00% matures 7/15/2024	\$ 1,639,500	\$	\$ 222,900	\$ 1,416,600	\$ 215,300
Police station, dated 12/1/2010, 2.00%-4.00%, matures 12/1/2030	<u>2,488,000</u>	<u> </u>	<u>204,000</u>	<u>2,284,000</u>	<u>204,000</u>
Total governmental activities bonds	4,127,500		426,900	3,700,600	419,300
Estimated landfill postclosure monitoring costs	375,000		15,000	360,000	15,000
Compensated absences, net	508,000		188,000	320,000	34,000
Net other postemployment (OPEB) liability	7,473,783		1,763,876	5,709,907	
Net pension liability (NPL)	<u>7,819,581</u>	<u> </u>	<u>1,159,141</u>	<u>6,660,440</u>	<u> </u>
Total governmental activities	<u>\$20,303,864</u>	<u>\$ </u>	<u>\$3,552,917</u>	<u>\$ 16,750,947</u>	<u>\$ 468,300</u>

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

The following is a summary of changes in long-term obligations for the year ended June 30, 2018 for the Town's business-type activity – water enterprise fund:

<u>Purpose</u>	(restated) <u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Water enterprise fund:					
Refunding issue, dated 6/30/2013, 2.0% matures 7/15/2025	\$ 992,100	\$	\$ 120,900	\$ 871,200	\$ 118,600
Water tanks, dated 12/01/2010, 2.00%-4.00%, matures 12/01/2030	322,000		23,000	299,000	23,000
Water mains, dated 12/1/2010, 2.00%-4.00% matures 12/01/2030	1,764,000		126,000	1,638,000	126,000
Water mains, dated 12/01/2010, 2.00%-4.00%, matures 12/01/2030	<u>2,476,000</u>		<u>177,000</u>	<u>2,299,000</u>	<u>177,000</u>
Total bonds payable	5,554,100		446,900	5,107,200	444,600
Compensated absences, net	23,000	4,000		27,000	
Net other postemployment (OPEB) liability	207,122		49,142	157,980	
Net pension liability (NPL)	<u>539,970</u>		<u>79,700</u>	<u>460,270</u>	
Total water enterprise fund	<u>\$ 6,324,192</u>	<u>\$ 4,000</u>	<u>\$ 575,742</u>	<u>\$ 5,752,450</u>	<u>\$ 444,600</u>

The following is a summary of changes in long-term obligations for the year ended June 30, 2018 for the Town's business-type activity – sewer enterprise fund:

<u>Purpose</u>	(restated) <u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Sewer enterprise fund:					
MWPAT, Clean Water bonds, dated 10/16/2005, matures 7/15/2035	\$ 5,865,000	\$	\$ 248,815	\$ 5,616,185	\$ 254,622
MWPAT, Clean Water bonds, subsidized, refunded 5/2007, 2.70%, matures 8/01/2033	6,780,000		295,000	6,485,000	305,000
MWPAT, Clean Water bonds, subsidized, refunded 5/2007, 2.70%, matures 8/01/2034	1,095,000		45,000	1,050,000	45,000
MWPAT, General Obligation Replacement bond, dated 3/18/2011, 2.42%, matures 7/15/2035	298,981		12,424	286,557	12,741
MWPAT, Clean Water bonds, dated 7/8/2010, 2.00%, matures 7/15/2030	585,548		36,659	548,889	37,392
MWPAT, Clean Water bonds, swap out 7/8/2012, 2.00%, matures 7/15/2032	40,210		2,489	37,721	2,542
Septic system betterment, dated 12/1/2010, 2.00%-4.00%, matures 12/1/2020	20,000		5,000	15,000	5,000
Refunding issue, dated 6/30/2013, 2.0% matures 7/15/2024	43,400		6,200	37,200	6,100
Massachusetts Clean Water Trust, dated 12/16/2016, 2.00%, matures 1/15/2035	<u>2,390,665</u>		<u>109,946</u>	<u>2,280,719</u>	<u>112,334</u>
Total bonds payable	17,118,804		761,533	16,357,271	780,731
Compensated absences, net	7,000	1,000		8,000	
Net other postemployment (OPEB) liability	87,799		21,424	66,375	
Net pension liability (NPL)	<u>631,594</u>		<u>95,294</u>	<u>536,300</u>	
Total sewer enterprise fund	<u>\$ 17,845,197</u>	<u>\$ 1,000</u>	<u>\$ 878,251</u>	<u>\$ 16,967,946</u>	<u>\$ 780,731</u>

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 2018, the Town received an interest subsidy of approximately \$156,000.

Future debt service

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2018, including interest, are as follows:

Governmental activities:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	403,100	61,609	464,709
2024-2028	1,396,400	154,814	1,551,214
2029-2031	244,000	6,480	250,480
Totals	<u>\$ 3,700,600</u>	<u>\$ 574,677</u>	<u>\$ 4,275,277</u>

Business-type activities:

Year Ending <u>June 30,</u>	<u>Business type Activities</u>					
	<u>Water Fund</u>			<u>Sewer Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 444,600	\$ 164,488	\$ 609,088	\$ 780,731	\$ 399,909	\$ 1,180,640
2020	442,200	150,730	592,930	800,144	373,204	1,173,348
2021	439,900	138,649	578,549	824,671	348,583	1,173,254
2022	437,500	126,411	563,911	839,621	322,796	1,162,417
2023	432,300	113,842	546,142	863,597	299,408	1,163,005
2024-2028	1,934,700	361,766	2,296,466	4,719,796	1,005,084	5,724,880
2029-2033	976,000	58,520	1,034,520	5,372,825	418,282	5,791,107
2034-2036				2,155,886	50,132	2,206,018
Totals	<u>\$ 5,107,200</u>	<u>\$ 1,114,406</u>	<u>\$ 6,221,606</u>	<u>\$ 16,357,271</u>	<u>\$ 3,217,398</u>	<u>\$ 19,574,669</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.

TOWN OF MARION, MASSACHUSETTS
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June 30, 2018

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, 2018:

<u>Purpose</u>	<u>Year Authorized</u>	<u>Amount Unissued</u>
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 plant	2018	<u>2,500,000</u>
Total		<u>\$ 4,704,420</u>

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, 2018.

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.

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

Changes in the Town's temporary debt which is associated with business-type activities, for the year ended June 30, 2018 is as follows.

<u>Purpose</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired / Renewed</u>	<u>Ending Balance</u>
Governmental activities:				
Bond anticipated note-fire ladder truck, dated 4/21/2017, 1.0%, due 4/19/2018	\$ 530,000	\$	\$ 530,000	\$
Bond anticipated note-fire ladder truck, dated 4/19/2018, 1.65%, due 10/17/18		500,000		500,000
Total governmental activities	<u>\$ 530,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>
<u>Purpose</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-type activities:				
Water fund:				
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-Mary's Pond well, dated 4/21/2017, 1.0%, due 4/19/2018	630,000		630,000	
Bond anticipation note-water tank project, dated 4/19/2018, 1.65%, due 10/17/2018		1,320,000		1,320,000
Bond anticipation note-Mary's Pond well, dated 4/19/2018, 1.65%, due 10/17/2018		598,500		598,500
Total water fund	<u>\$ 2,025,000</u>	<u>\$ 1,918,500</u>	<u>\$ 2,025,000</u>	<u>\$ 1,918,500</u>
<u>Purpose</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Sewer fund:				
Bond anticipation note-sewer extension, dated 4/21/2017, 1.0%, due 4/19/2018	\$ 220,000	\$	\$ 220,000	\$
Bond anticipation note-sewer 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	968,000		968,000	
Bond anticipation note-sewer extension, dated 4/19/2018, 1.65%, due 10/17/2018		200,000		200,000
Bond anticipation note-septic program, dated 4/19/2018, 1.65%, due 10/17/2018		31,556		31,556
Bond anticipation note-WWTP equipment upgrade, dated 4/19/2018, 1.75%, due 4/18/2019		1,340,000		1,340,000
Bond anticipation note-septic lagoon NPDES, dated 4/19/2018, 1.75%, due 4/18/2019		893,000		968,000
Total sewer fund	<u>\$ 1,224,778</u>	<u>\$ 2,464,556</u>	<u>\$ 1,224,778</u>	<u>\$ 2,464,556</u>

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

In October 2018, the Town issued multipurpose bonds of approximately \$8.0 million. Of this amount, \$5.6 million was used to refund the multipurpose bond issued on December 1, 2010. The remaining \$2.4 million, along with appropriations from available fund balance, was used to pay the BAN due October 17, 2018.

Note 11. Employee Benefits

A. Retirement Benefits

1. Plymouth County Retirement Association

Plan Description

The Plymouth County Retirement Association (the Association) 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). Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees working more than 20 hours a week. As of December 31, 2017, the Association had 54 participating employers.

The Association is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems. The Association is governed by a five-member Board who establish the policies under which the Association operates. The Association issued an audited financial statement for the year ended December 31, 2017, 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 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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Members 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 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 or age 55, depending on class of membership.

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 Association'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 proportionate share of aggregate net pension liability. The Town's statutorily required contribution for the year was \$973,158, which was net of the discount of approximately \$19,000.

Pension Liabilities, Expenses, and Deferred Outflows of Resources Related to Pensions

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

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

	<u>2017</u>
Total pension liability	\$ 1,555,495,352
Less: plan fiduciary net position	<u>(1,019,707,446)</u>
Net pension liability	<u>\$ 535,787,906</u>
Plan's fiduciary net position as a percentage of total pension liability	65.56%
Total employer pension expense	\$ 52,212,734
The Town's proportionate share of the collective net pension liability	\$ 7,657,010
The Town's percentage share of the collective net pension liability	1.429%
Town covered payroll	\$ 4,873,884
The Town's proportionate share of pension expense recognized	\$ 751,786

The Town's proportionate share of pension expense has been included in the statement of activities, these amounts are reported as employee benefits and other insurances expenses and are allocated amongst governmental activities and business-type activities. Governmental activities pension expense was \$654,865 and business-type activities pension expense was \$96,921, of which \$44,077 and \$52,844 was allocated to the water and sewer fund, respectively. Contributions to the Association are reported as an expenditure in the general fund statement of revenues, expenditures and changes in fund balance.

The Town's proportionate share of collective net deferred outflows and (inflows) of resources was \$(320,923). Refer to Note 6 on page 25 for detail regarding deferred outflows and (inflows) of resources. The net amount of \$(320,923) is to be recognized in future pension expense in the amount of \$84,817 for the year ending June 30, 2019, \$(11,385) for the year ended June 30, 2020, \$(184,585) for the year ended June 30, 2021 and \$(209,770) for the year ended June 30, 2022.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 Incentives.
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% (discount rate).
Projected salary increases:	3.75% annually.
Cost-of-living adjustments:	3.0% of the first \$14,000 of retirement income.
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 three 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, 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.
Family composition:	Assumption that 80% and 60% of male and female members, respectively will be survived by a spouse.

The Plan's policy in regard to the allocation of invested assets is established by the Board. 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 long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected nominal rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2017 are summarized in the following table:

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

<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%	<u>1.0%</u>
		<u>100.0%</u>

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity 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, 2017	\$695,089,721	\$535,787,906	\$397,853,354
Town's proportionate share	\$ 9,933,739	\$ 7,657,010	\$ 5,685,843

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 collaboratives 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 are 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 Town, 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.

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.

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

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

In addition, members who join MTRS on or after April 2, 2012 will have their withholding rate reduced to 8%, after achieving 30 years of credible service.

Contributions are provided by the Commonwealth on behalf of the Town based upon actuarially determined amounts. The nonemployer contributions made by the Commonwealth to the MTRS on behalf of the Town was \$609,056. 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, 2017, rolled forward to June 30, 2017 (measurement date). The following table illustrates the Plan's net pension liability and the Commonwealth's proportionate share associated with the Town.

	<u>2017</u>
Total pension liability	\$ 50,024,000,000
Less: plan fiduciary net position	<u>(27,138,609,000)</u>
Net pension liability	<u>\$ 22,885,391,000</u>
Plan's fiduciary net position as a percentage of total pension liability	54.25%
Commonwealth's proportionate share of collective net pension liability associated with the Town	\$ 11,281,522
Commonwealth's proportionate share associated with the Town as a percentage of the total net pension liability	0.049296%
Commonwealth's proportionate share of pension expense associated with the Town	\$ 1,177,485

The Commonwealth's proportionate share of pension contributions associated with the Town has been included on the Town's statement of revenues, expenditures, and changes in 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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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 on the first \$13,000.
- (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 MP-2016 (gender distinct)
 - b. Post-retirement: reflects RP-2014 Healthy Annuitant table projected generationally with MP-2016 (gender distinct)
 - c. Disability: assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years
- (4) Experience study was performed as follows: Dated July 21, 2014 and encompasses the period of January 1, 2006 to December 31, 2011.

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, 2017 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%	5.0%
Portfolio Completion Strategies	13.0%	3.6%
Core Fixed Income	12.0%	1.1%
Private Equity	11.0%	6.6%
Value Added Fixed Income	10.0%	3.8%
Real Estate	10.0%	3.6%
Timber/Natural Resources	4.0%	3.2%
Hedge Funds	0.0%	3.6%
Total	100.0%	

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.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

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, 2017.

	<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	\$28,424,300,000	\$22,885,391,000	\$18,193,400,000
Proportionate share associated with Town	\$14,011,968	\$11,281,522	\$8,968,570

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 in the general fund when paid, and expense in the statement of activities when incurred. Additionally, the cost of vacation and sick leave is recorded as an expense in the water and sewer fund statement of revenues, expenses and changes in net position 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 of \$320,000 and \$35,000 in governmental and business-type activities, respectively, in the accompanying statement of net position. In fiscal year 2018, the Town paid approximately \$200,000 for unused sick and vacation time to retiring employees. A significant portion of the amount was paid out of the water and sewer fund.

C. Other Postemployment Benefits

General Information About the OPEB Plan

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 180 participants, which is comprised of 55 retirees and spouses receiving benefits and 125 active employees. Benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and Town ordinances. The Town currently pays for benefits on a “pay-as-you-go” basis. The Plan is accounted for as a fiduciary fund in the Town's financial statements. No additional financial statements are maintained.

The Town has accepted provisions of MGL Chapter 32B, Section 20 which allow for the Town to establish a separate OPEB liability trust fund. The Town maintains a separate investment account for this trust which is managed by a third party. The Town's share of premiums are appropriated and paid from the general fund on an annual basis, with the water and sewer fund reimbursing the general fund for their proportionate share of contributions. Accordingly, the net liability associated with providing these benefits to plan participants is recorded in the governmental activities and business-type activities. At June 30, 2018, the Town maintained \$1,373,984 in the OPEB Trust fund. Currently, all contributions to the OPEB trust fund are appropriated from the general fund.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Contributions

The contribution rates of retirees are established by collective-bargaining agreements, Massachusetts General Law, and Town ordinances. The required contribution is based on “pay as you go” financing requirements. All benefits are provided through a third-party joint purchasing group that administers, assumes, and pays all claims. The Town contributes 50% of the medical and life insurance premiums with the remainder funded through pension benefit deductions. The Town also contributes 100% of dental insurance premiums.

GASB Statement No. 75

In accordance with GASB Statement No. 75, the Town (the employer) recognizes a net OPEB liability measured as the portion of the actuarial present value of the projected benefit payments that is attributable to past periods of employee service, net of the OPEB plan’s fiduciary net position. The net OPEB liability is recognized as of the measurement date, which was July 1, 2017. Additional information associated with the actuarial valuation report can be obtained by contacting the Town directly. Significant actuarial amounts and disclosures pursuant to the accounting statement are detailed as follows.

Actuarial Determined Contribution (ADC)

The Town’s Actuarially Determined Contribution (ADC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 74/75 which represents a level of funding that, if paid on an ongoing basis, is projected to cover the service cost each year and amortize any unfunded actuarial liabilities (or funding excess). The following table shows the components of the Town’s annual ADC for the fiscal year 2018 and the amount actually contributed to the Plan. Contributions are actuarially determined inclusive of implicit subsidies.

Service cost	\$ 218,751
30 year amortization of NOL at 6.50%	438,477
Actuarial determined contribution	657,228
Contributions in relation to actuarially determined contribution	<u>(442,591)</u>
Contribution deficiency/(excess)	<u>\$ 214,637</u>
Covered employee payroll	\$ 8,586,697
Contributions as a percentage of covered employee payroll	5.15%

Net OPEB Liability

In accordance with GASB No. 75, the Town recognizes a net OPEB liability measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the OPEB plan’s fiduciary net position. The net OPEB liability is recognized as of the measurement date. The Town’s measurement date was July 1, 2017, for the Town’s (the employer) reporting/fiscal year ending June 30, 2018.

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 significant assumptions were utilized in the actuarial valuation:

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Valuation date:	July 1, 2017
Actuarial cost method:	Individual Entry Age Normal
Investment rate of return:	6.34%, net of investment expense, including inflation
Discount rate:	6.50%, based on investment rate of return
Investment inflation:	2.75% as of July, 1 2017 and for future periods
Medical inflation assumptions:	5.00% level
Annual compensation increases:	3.0% per annum
Actuarial value of assets:	Market value as of measurement date
Mortality rates:	Preretirement – RP-2000 Employees Mortality Table projected generationally with scale BB and base year 2009 for males and females. Post-retirement – RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and base year 2009 for males and females. Disabled – RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and base year 2012 for males and females.
Changes in assumptions:	Discount rate is 6.5%, previously 4.00%; the actuarial cost method changed pursuant to GASB Statement No. 75.

Pursuant to the Town’s investment policy for the OPEB Plan, 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 6.34%. The following was the Town’s adopted asset allocation policy as of the June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity - Large Cap	25.00%	4.00%
Domestic Equity - Small/Mid Cap	11.25%	6.00%
International Equity - Developed Market	10.00%	4.50%
International Equity - Emerging Market	3.75%	7.00%
Domestic Fixed Income	39.75%	2.00%
International Fixed Income	0.25%	3.00%
Alternatives	10.00%	6.50%
Real Estate	0.00%	6.25%
Cash	<u>0.00%</u>	0.00%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Due to the implementation of GASB Statement No. 75, the discount rate was changed from 4.00% (previously used to measure the net OPEB obligation under GASB Statement No. 45) to 6.50%. Assumptions changed regarding Town contributions and projected OPEB Plan's fiduciary net position availability to make all projected OPEB payments for current and inactive employees. Therefore, the long term expected rate of return was used derive the discount rate used for the July 1, 2017 actuarial valuation.

Changes in the Net OPEB Liability

The following table illustrates the changes in net OPEB liability through the actuarial valuation date of July 1, 2017 (measurement date):

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2016 (GASB 45)	\$11,168,406	\$ 791,435	\$ 10,376,971
Change in Assumptions for GASB 75	<u>(2,608,267)</u>		<u>(2,608,267)</u>
Balances at July 1, 2016 (GASB 75)	8,560,139	791,435	7,768,704
Changes for the year:			
Service cost	305,875		305,875
Interest on net OPEB liability, service cost, and benefit payments	566,806		566,806
Differences between expected & actual experience	(2,134,664)		(2,134,664)
Net investment income		75,957	(75,957)
Employer contributions to Trust		496,502	(496,502)
Total benefit payments including implicit costs	<u>(296,502)</u>	<u>(262,502)</u>	
Net changes	<u>(1,558,485)</u>	<u>275,957</u>	<u>(1,834,442)</u>
Balances at July 1, 2017	<u>\$ 7,001,654</u>	<u>\$ 1,067,392</u>	<u>\$ 5,934,262</u>

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:

	1% Decrease (4.00%)	Current Trend Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$ 4,083,882	\$ 5,934,262	\$ 8,244,069

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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current discount rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB Liability	\$6,964,477	\$ 5,934,262	\$ 5,017,399

TOWN OF MARION, MASSACHUSETTS
Notes to Financial Statements
June 30, 2018

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For fiscal year 2018 the Town recognized \$816,261 in OPEB expense, of which \$787,769 and \$28,492 was recognized in governmental and business-type activities, respectively. As of the measurement date, July 1, 2017, the Plan reported deferred inflows related to an experience gain of \$2,134,664 and deferred inflows associated with net difference between projected and actual earnings on investments of \$19,537 which is to be amortized over 6.3 years and 5 years, respectively. The future amortization of the net deferred inflows of resources over future periods is to be included in OPEB expense in the amount of \$(342,743) for the year ended June 30, 2019 – 2022, \$(342,745) for the year ended June 30, 2023 and \$(440,484) thereafter.

GASB Statement #74

GASB Statement #74 is associated with reporting of the OPEB Plan as of the reporting date, June 30, 2018. As previously indicated, the Plan is reported as a fiduciary fund in the Town's financial statements. At June 30, 2018, the Town maintained \$1,373,984 in the OPEB trust fund. Amounts reported in the fund are reported based upon the actual contributions, earnings, benefits and premiums paid on the pay-as-you go basis during fiscal year 2018. Additional actuarial calculations, amounts and assumptions associated with the Plan are presented as required supplementary information following the basic financial statements.

Note 13. Landfill Closure and Postclosure Care Costs

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

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 postclosure 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, 2018, the Town estimates future costs associated with monitoring requirements to be approximately \$360,000. This estimate has been recorded in the government-wide financial statements as of June 30, 2018. 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's portion of premiums paid to the Group was approximately \$934,000 for the year ended June 30, 2018. 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, 2018

Note 15. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2018. 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. Restatement of Certain Beginning Balances

The following table illustrates the restatement of beginning net position in the statement of activities for the change in accounting principle due to the implementation of GASB Statement No. 75:

	Governmental	Business-type	
	Activities	Water	Sewer
	Activities	Fund	Fund
Net position, June 30, 2017	\$ 19,589,272	\$ 5,738,260	\$ 11,125,872
Restatements:			
Net OPEB obligation, reported pursuant to GASB #45	5,745,316	164,637	125,980
Net OPEB liability, reported pursuant to GASB #75	<u>(7,473,783)</u>	<u>(207,122)</u>	<u>(87,799)</u>
Net position, July 1, 2017, restated	<u>\$ 17,860,805</u>	<u>\$ 5,695,775</u>	<u>\$ 11,164,053</u>

Note 17. GASB Pronouncements

Current pronouncements

The GASB issued Statement #75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which was 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 postemployment benefits. The Town implemented this pronouncement in fiscal year 2018, see Note 16.

The GASB issued Statement #82, Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73 which was 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 implemented this pronouncement in 2018, and had no material effect on the financial statements.

The GASB issued Statement #85, Omnibus 2017 was required to be implemented in fiscal year 2018. The pronouncement addresses a variety of issues in the implementation of various statements. The Town implemented this pronouncement in 2018, and had no material effect on the financial statements.

The GASB issued Statement #86, Certain Debt Extinguishment Issues was 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 implemented this pronouncement in 2018, and had no material effect on the financial statements.

TOWN OF MARION, MASSACHUSETTS

Notes to Financial Statements

June 30, 2018

Future pronouncements

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

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

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

The GASB issued Statement #88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in fiscal year 2021. This pronouncement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide additional essential information about debt. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is required to be implemented in fiscal year 2020. This Statement will improve financial reporting by provided users of financial statement with more relevant information about capital assets and the cost of borrowing for a reporting period. The Town expects to implement the pronouncement as applicable.

The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements No.14 and No. 61*, which is required to be implemented in fiscal year 2020. This pronouncement improves the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Town doesn't expect this pronouncement to be applicable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Changes in the Town's Net OPEB Liability and Related Ratios
 Last 10 Years*

Valuation date:	July 1, 2017	July 1, 2017
Measurement date	July 1, 2018	July 1, 2017
For the Plan fiscal year ended:	June 30, 2018	June 30, 2017
Total OPEB liability:		
Service cost	\$ 218,751	\$ 305,875
Interest	462,843	566,806
Benefits payments	(202,591)	(296,502)
Net change in total OPEB liability	479,003	576,179
Total OPEB liability - beginning	7,001,654	6,425,475
Total OPEB liability - ending (a)	\$ 7,480,657	\$ 7,001,654
Plan fiduciary net position		
Contributions - employer	\$ 442,591	\$ 496,502
Net investment income	75,164	75,957
Benefit payments	(202,591)	(296,502)
Net change in fiduciary net position	315,164	275,957
Plan fiduciary net position - beginning	1,067,392	791,435
Plan fiduciary net position - ending (b)	1,382,556	1,067,392
Town's net OPEB liability - ending (a-b)	\$ 6,098,101	\$ 5,934,262
Plan fiduciary net position as a percentage of the total OPEB liability	18.48%	15.24%
Covered - employee payroll	8,586,697	8,336,599
Town's net OPEB liability as a percentage of covered-employee payroll	71.02%	71.18%

Notes to Schedule:

The Town's (employer) net OPEB liability for the year ended June 30, 2018, is reported for the Plan's year end reporting date of June 30, 2017.

Change in Assumptions:

- Discount rate is 6.50%; previously 4.00% (under GASB Statement No. 45)
- The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females; previously RP-2000 Mortality Table projected to 2017.
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females; previously RP-2000 Mortality Table projected to 2017
- The Actuarial Cost Method is Entry Age Normal; previously Projected Unit Credit.

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

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Contributions - Other Postemployment Benefits
 Last 10 Years*

For the Plan fiscal year ended:	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Actuarially determined contribution	\$ 657,228	\$ 732,570
Contributions in relation to the actuarially determined contribution	<u>442,591</u>	<u>496,502</u>
Contribution deficiency (excess)	<u>\$ 214,637</u>	<u>\$ 236,068</u>
Covered-employee payroll	\$ 8,586,697	\$ 8,336,599
Contributions as a percentage of covered-employee payroll	5.15%	5.96%

Notes to Schedule

Valuation date: July 1, 2017 (for June 30, 2018 Plan reporting period)

Methods and assumptions used to determine the contribution rates:

Actuarial cost method: Individual Entry Age Normal

Amortization period: 30 years, level percentage of payroll

Discount rate: 6.50% (previously 4.00% under GASB 45)

Inflation: 2.75%

Asset valuation method: Market value of assets as of the Measurement date,
July 1, 2017

Healthcare cost trend rates: 5.00%

Salary increases: 3.00%, including inflation

Investment rate of return: 6.34%, net of inflation and investment expense

Retirement age: Varies based on eligibility

Mortality: Pre-retirement - RP-2000 Employees Mortality Table
projected to generationally with scale BB and base
year 2009 for males and females
Post-retirement - RP-2000 Healthy Annuitant Mortality
Table projected to generationally with scale BB and base
year 2009 for males and females
Disabled - RP-2000 Healthy Annuitant Mortality Table
projected to generationally with scale BB and base
year 2012 for males and females

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

TOWN OF MARION, MASSACHUSETTS
Required Supplementary Information
Schedule of Investment Returns - Other Postemployment Benefits
Last 10 Years*

For the Plan fiscal year ended:	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	6.34%	8.54%

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

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Pension Plan Contributions
 Last 10 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). The Plan's year end is December 31. Based upon the actuarial valuation date, the following is presented.

	<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
Town's proportionate/allocated share of collective net pension liability	\$ 7,657,010	\$	8,991,145	\$	8,987,700	\$	8,260,463
Town's proportionate share of pension expense	\$ 751,786	\$	1,151,398	\$	1,027,052	\$	854,268
Town's share of collective net pension liability as a percentage of the total	1.429%		1.419%		1.417%		1.417%
Actuarially determined contribution	\$ 973,158	\$	939,265	\$	896,935	\$	828,705
Contributions in relation to actuarial determined contribution	<u>\$ (973,158)</u>	<u>\$</u>	<u>(939,265)</u>	<u>\$</u>	<u>(896,935)</u>	<u>\$</u>	<u>(828,705)</u>
Contribution deficiency(excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 4,873,884	\$	4,686,427	\$	4,394,315	\$	3,496,068
Town's contributions as a percentage of covered payroll	19.97%		20.04%		20.41%		23.70%
Town's proportionate share of the collective net pension liability as a percentage of covered payroll	157.10%		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.

TOWN OF MARION, MASSACHUSETTS

Required Supplementary Information

Schedule of Pension Plan Contributions

Last 10 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 contribution on behalf of member employees. 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. The Plan's year end is June 30. Based upon the actuarial valuations of the Plan, the following is presented.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commonwealth's proportionate/allocated share of collective net pension liability associated with the Town	\$ 11,281,522	\$ 10,897,228	\$ 10,173,722	\$ 8,284,374
Commonwealth's proportionate share of collective pension expense associated with the Town	\$ 1,177,485	\$ 1,111,589	\$ 825,179	\$ 575,555
Commonwealth's proportionate share of collective net pension liability as a percentage of the total	0.049296%	0.048740%	0.049653%	0.052115%
Actuarially determined contribution	\$ 609,056	\$ 548,120	\$ 507,423	\$ 488,515
Contributions in relation to actuarial determined contribution	\$ (609,056)	\$ (548,120)	\$ (507,423)	\$ (488,515)
Contribution deficiency(excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll -approximate	\$3.3 million	\$3.1 million	\$3.1 million	\$3.1 million
Commonwealth's contributions on behalf of the Town as a percentage of covered payroll	18.46%	16.13%	16.67%	15.29%
Commonwealth's proportionate share of the collective net pension liability as a percentage of covered payroll	341.86%	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.

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 17,840,936	\$ 17,840,936	\$ 18,040,706	\$ 199,770
Excise taxes	747,000	747,000	879,575	132,575
Penalties and interest	74,000	74,000	148,697	74,697
Departmental and other	749,000	749,000	1,015,781	266,781
Investment income	10,000	10,000	49,698	39,698
Intergovernmental	<u>1,179,154</u>	<u>1,179,154</u>	<u>1,402,939</u>	<u>223,785</u>
Total revenues	20,600,090	20,600,090	21,537,396	937,306
Expenditures				
General government	2,623,427	2,273,527	2,230,307	43,220
Public safety	3,720,690	3,604,480	3,535,795	68,685
Education	11,094,623	10,711,641	10,633,093	78,548
Public works	1,524,799	1,281,483	1,264,818	16,665
Human services	363,677	392,564	385,274	7,290
Culture and recreation	339,589	342,206	342,116	90
Employee benefits and other insurance	3,256,830	3,256,732	2,651,835	604,897
State and county assessments	97,063	97,063	82,009	15,054
Debt service:				
Principal	456,900	456,900	456,900	
Interest and other charges	<u>146,821</u>	<u>146,821</u>	<u>123,737</u>	<u>23,084</u>
Total expenditures	<u>23,624,419</u>	<u>22,563,417</u>	<u>21,705,884</u>	<u>857,533</u>
Revenues over (under) expenditures	(3,024,329)	(1,963,327)	(168,488)	1,794,839
Other financing sources (uses)				
Transfers in from other funds	1,072,588	1,072,588	1,064,917	(7,671)
Transfers out to other funds	<u>(465,000)</u>	<u>(465,000)</u>	<u>(465,000)</u>	
Total other financing sources and (uses)	<u>607,588</u>	<u>607,588</u>	<u>599,917</u>	<u>(7,671)</u>
Revenues and other financing sources over under expenditures and other financing uses	(2,416,741)	(1,355,739)	<u>\$ 431,429</u>	<u>\$ 1,787,168</u>
Other budget items				
Use of available funds	1,492,874	1,781,604		
Carryover encumbrances and articles	<u>923,867</u>	<u>(425,865)</u>		
Total other budget items	<u>2,416,741</u>	<u>1,355,739</u>		
Net budget	<u>\$</u>	<u>\$</u>		

See accompanying notes to budgetary comparison schedule.
 See Independent Auditor's Report.

TOWN OF MARION, MASSACHUSETTS
 Required Supplementary Information
 Notes to Budgetary Comparison Schedule – General Fund
 June 30, 2018

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, 2018, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	Other financing Sources (Uses), Net
As reported on a budgetary basis	\$ 21,537,396	\$ 21,705,884	\$ 599,917
Contribution to OPEB Trust fund		240,000	240,000
Adjustment for stabilization funds and land acquisition fund	(25,454)		225,000
Adjustment for indirect costs transferred from water and sewer funds		(790,617)	(790,617)
Timing of school summer payroll		135,293	
Adjustment for property tax revenue reported on modified accrual basis and adjustment to provision for refunds	(71,527)		
BAN paydown for fire engine capital project		(30,000)	(30,000)
State funded teacher's pension	<u>609,056</u>	<u>609,056</u>	
As reported on a GAAP basis	<u>\$ 22,049,471</u>	<u>\$ 21,869,616</u>	<u>\$ 244,300</u>

See Independent Auditor’s Report.

REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



LYNCHMARINI & ASSOCIATES INC.
CERTIFIED PUBLIC ACCOUNTANTS
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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, 2018, 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 February 5, 2019.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2018-001, the combination of which that we considered to be a significant deficiency.

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

The Town of Marion, Massachusetts' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.

Lynch Marini + associates LLP

Norwell, Massachusetts
February 5, 2019

**TOWN OF MARION, MASSACHUSETTS
SCHEDULE OF FINDINGS & RESPONSES**

The following finding highlights certain deficiencies, the combination of which are considered to be significant deficiencies in internal control over financial reporting. Item 2018-001 was also reported in our report for the year ended June 30, 2017, dated June 20, 2018.

2018-001 Cash, withholding and Other Liability Account Reconciliations

During the current year audit, we noted that accounts payable was overstated by roughly \$169,000 and withholdings payable was overstated by roughly \$310,000. Additionally, it was noted that cash reconciliation procedures, although implemented, are not being performed timely. However, it should be noted that no cash variance existed between the Treasurer's cash book and the general ledger at June 30, 2018.

It is imperative that these accounts be more formally monitored to ensure activity being processed (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, accounts payable and withholding activity for fiscal year 2019 has been implemented and the Town expects that an enhanced monthly reconciliation process will be fully implemented for fiscal year 2019.

Management Response:

The Town of Marion is continuing to develop and implement procedures to assist with the reconciliation process.