

***TOWN OF WINTHROP, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2017***

TOWN OF WINTHROP, MASSACHUSETTS  
REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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## Independent Auditor's Report

To the Honorable Town Council  
Town of Winthrop, Massachusetts

## Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Winthrop, Massachusetts, as of and for the year ended June 30, 2017 (except for Winthrop Contributory Retirement System which is as of and for the year ended December 31, 2016), 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 the financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Winthrop, Massachusetts, as of June 30, 2017 (except for the Winthrop Contributory Retirement System which is as of and for the year ended December 31, 2016), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, 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 May 17, 2018, on our consideration of the Town of Winthrop, 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 the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Winthrop, Massachusetts' internal control over financial reporting and compliance.



May 17, 2018

***Management's Discussion and Analysis***

## Management's Discussion and Analysis

As management of the Town of Winthrop (the Town), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented in this report in conjunction with the Town's financial statements. All amounts, unless otherwise noted, are presented in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### Financial Highlights

- The net position of the Town at the close of the most recent year was \$59.9 million.
- At the close of the current year, the Town's general fund reported an ending fund balance of \$7.0 million. Total fund balance represents 14% of total general fund budgetary expenditures.
- The Town's total long-term debt was \$58.3 million at year end, a net increase of \$11.4 million over the prior year. This increase was due to the issuance of \$14.0 million of municipal purpose bonds, offset by \$2.5 million of scheduled principal payments.
- The Town's other postemployment (OPEB) benefit liability increased by \$4.1 million, totaling \$26.1 million as of June 30, 2017.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Winthrop's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of finances in a manner similar to private sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (i.e. uncollected taxes and earned but unused vacation leave).

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

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the 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 of Winthrop adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison statement is presented as required supplementary information after the notes to the basic financial statements.

**Proprietary funds.** The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary fund statements provide separate information for the water & sewer, skating rink, harbor/waterways, recreation, and ferry, tourism and culture enterprise funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains three different fiduciary funds.

The *pension trust fund* is used to account for resources held in trust for members of the Winthrop Contributory Retirement System.

The *OPEB trust fund* is used to account for resources held in trust for future costs associated with other postemployment benefits.

The *private purpose trust fund* is used to account for resources held in trust which principle and investment income exclusively benefit individuals or private organizations.

The *agency fund* is used to account for assets held in a purely custodial capacity.

**Notes to the basic 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.

**Financial Highlights.** The following pages provide financial highlights of the government-wide financial statements for 2017 in comparison to 2016.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$59.9 million at the close of 2017.

Net position of \$76.6 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its 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 totaling \$1.1 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position has a year-end deficit of \$17.8 million. The primary reason for this deficit is the recognition of the net pension and OPEB liabilities.

The financial analysis of the Town’s governmental and business-type activities is presented on the following pages.

**Governmental Activities**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. For governmental activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44.1 million at the close of 2017.

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 24,598,979	\$ 23,794,985
Capital assets.....	<u>116,023,186</u>	<u>107,422,741</u>
<b>Total assets.....</b>	<b><u>140,622,165</u></b>	<b><u>131,217,726</u></b>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources related to pensions.....	<u>3,779,000</u>	<u>4,903,853</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	4,795,671	8,301,799
Noncurrent liabilities (excluding debt).....	40,145,086	36,442,753
Current debt.....	2,308,722	1,756,468
Noncurrent debt.....	<u>51,932,143</u>	<u>40,279,713</u>
<b>Total liabilities.....</b>	<b><u>99,181,622</u></b>	<b><u>86,780,733</u></b>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources related to pensions.....	<u>1,155,000</u>	<u>1,544,181</u>
<b>Net Position:</b>		
Net investment in capital assets.....	63,278,018	65,422,292
Restricted.....	1,135,253	875,329
Unrestricted.....	<u>(20,348,728)</u>	<u>(18,500,956)</u>
<b>Total net position.....</b>	<b><u>\$ 44,064,543</u></b>	<b><u>\$ 47,796,665</u></b>

	<u>2017</u>	<u>2016</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 2,491,790	\$ 2,346,236
Operating grants and contributions.....	14,311,119	12,058,784
Capital grants and contributions.....	3,071,486	25,080,489
<b>General revenues:</b>		
Real estate, personal property and tax liens.....	30,160,433	29,298,421
Penalties and interest on taxes.....	281,098	232,861
Hotel and motel taxes.....	293,807	245,609
Motor vehicle and boat excise taxes.....	2,147,630	2,183,304
Nonrestricted grants.....	6,088,580	5,934,661
Unrestricted investment income.....	189,335	202,285
<b>Total revenues.....</b>	<b><u>59,035,278</u></b>	<b><u>77,582,650</u></b>
<b>Expenses:</b>		
General government.....	5,280,624	4,964,268
Public safety.....	12,322,472	10,584,696
Education.....	37,168,262	32,505,902
Public works.....	5,016,877	4,176,344
Human services.....	585,743	524,330
Culture and recreation.....	1,000,169	941,316
Interest.....	1,714,447	1,916,275
<b>Total expenses.....</b>	<b><u>63,088,594</u></b>	<b><u>55,613,131</u></b>
<b>Transfers, net.....</b>	<b><u>321,194</u></b>	<b><u>50,105</u></b>
<b>Change in net position.....</b>	<b><u>(3,732,122)</u></b>	<b><u>22,019,624</u></b>
<b>Net position, beginning of year.....</b>	<b><u>47,796,665</u></b>	<b><u>25,777,041</u></b>
<b>Net position, end of year.....</b>	<b><u>\$ 44,064,543</u></b>	<b><u>\$ 47,796,665</u></b>

The governmental activities net position decreased by \$3.7 million during the current year due to several offsetting factors. The decrease in net position is primarily due to the increase in the OPEB liability over the prior year.

Governmental expenses totaled \$63.1 million of which \$19.9 million was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$39.2 million, primarily coming from property taxes, excise taxes, and grants not restricted to specific programs.

Capital grants and contributions, which accounts for 15% of the governmental program revenues, decreased \$22.0 million over the prior year. This is mainly due to revenues received from the Massachusetts School Building Authority (MSBA) in conjunction with the middle/high school construction project in the prior year. This project was completed during 2017.

**Business-type Activities.** For business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15.9 million at the close of 2017. The following tables summarize results over the last two years.

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 4,575,792	\$ 6,715,637
Noncurrent assets (excluding capital).....	118	19,989
Capital assets.....	<u>17,414,609</u>	<u>16,338,848</u>
<b>Total assets.....</b>	<b><u>21,990,519</u></b>	<b><u>23,074,474</u></b>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources related to pensions.....	<u>434,000</u>	<u>566,853</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	78,098	665,397
Noncurrent liabilities (excluding debt).....	2,290,495	2,898,673
Current debt.....	690,035	757,811
Noncurrent debt.....	<u>3,371,640</u>	<u>4,061,675</u>
<b>Total liabilities.....</b>	<b><u>6,430,268</u></b>	<b><u>8,383,556</u></b>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources related to pensions.....	<u>131,000</u>	<u>178,496</u>
<b>Net Position:</b>		
Net investment in capital assets.....	13,352,934	11,519,362
Unrestricted.....	<u>2,510,317</u>	<u>3,559,913</u>
<b>Total net position.....</b>	<b><u>\$ 15,863,251</u></b>	<b><u>\$ 15,079,275</u></b>
<b>Program revenues:</b>		
Charges for services.....	\$ 8,933,209	\$ 8,434,443
Operating grants and contributions.....	12,000	10,834
Capital grants and contributions.....	51,400	790,650
<b>General revenues:</b>		
Boat excise taxes.....	51,080	52,572
Unrestricted investment income.....	<u>4,474</u>	<u>3,774</u>
<b>Total revenues.....</b>	<b><u>9,052,163</u></b>	<b><u>9,292,273</u></b>
<b>Expenses:</b>		
Water & Sewer.....	6,581,084	6,947,788
Skating rink.....	305,648	344,393
Harbor/Waterways.....	269,346	386,483
Recreation.....	365,459	453,923
Ferry, tourism and culture.....	<u>425,456</u>	<u>192,482</u>
<b>Total expenses.....</b>	<b><u>7,946,993</u></b>	<b><u>8,325,069</u></b>
<b>Transfers, net.....</b>	<b><u>(321,194)</u></b>	<b><u>(50,105)</u></b>
<b>Change in net position.....</b>	<b><u>783,976</u></b>	<b><u>917,099</u></b>
<b>Net position, beginning of year.....</b>	<b><u>15,079,275</u></b>	<b><u>14,162,176</u></b>
<b>Net position, end of year.....</b>	<b><u>\$ 15,863,251</u></b>	<b><u>\$ 15,079,275</u></b>

Business-type net position of \$13.4 million represents the net investment in capital assets, \$2.5 million is unrestricted. The Town's business-type activities net position increased \$784,000 in the current year. During 2017, the Town voted to combine the Water enterprise fund and the Sewer enterprise fund to create the Water & Sewer enterprise fund.

The water & sewer enterprise fund net position increased by \$815,000 during 2017. This increase was primarily due to increased usage and the Town's ability to assess rates that are in line with costs.

The harbor/waterways fund net position increased by \$85,000 during 2017. This increase was primarily due to a decrease in the fund's share of the long-term OPEB liability.

The ferry, tourism and culture fund net position decreased by \$116,000 during 2017. This decrease was primarily due to an operating loss of \$308,000, offset by a transfer from the general fund to subsidize operations.

The skating rink fund and the recreation fund essentially broke even during 2017.

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

At the end of the current year, the Town's governmental funds reported combined ending fund balances of \$19.5 million, of which \$7.0 million is related to the general fund, a deficit balance of \$1.1 million is related to the middle/high school project, \$2.4 million is related to the Lewis Lake Project, \$8.5 million is related to the Miller Field Construction Project and \$2.6 million is related to nonmajor governmental funds.

The general fund is the chief operating fund of the Town. At the end of the current year, unassigned fund balance of the general fund was \$6.3 million while total fund balance was \$7.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 12.7% of the total general fund budgetary expenditures, while total fund balance represents 14.0% of that same amount. The general fund balance decreased by \$273,000 during the current year.

The *middle/high school capital project fund* is used to account for the activity associated with constructing a new middle/high school. The Town has been approved to receive assistance from the MSBA for 59.97% of eligible construction costs. The total cost of the project will be approximately \$81,819,000, of which the Town's share of the projected cost is \$42,614,000. Fund balance at year-end totaled a deficit of \$1.1 million, a decrease of \$2.3 million over the prior year. This decrease in fund balance is due to 2017 construction costs totaling \$8.3 million offset by the receipt of \$1.9 million of reimbursements from the MSBA and proceeds from the issuance of bonds of \$3.8 million.

The *Lewis Lake project fund* is used to account for activity associated with constructing the Lewis Lake Drainage project. The decrease in fund balance is due to the \$245,000 of expenditures in 2017.

The *Miller Field construction project fund* is used to account for the activity associated with constructing the Miller Field project. The increase in fund balance is due to the receipt of \$9.8million of long-term bond proceeds and related premiums, offset by \$1.3 million is construction costs.

### **General Fund Budgetary Highlights**

The original 2017 approved budget authorized \$46.6 million in appropriations and other amounts to be raised, as well as \$1.2 of carryforwards from the prior year. During 2017, the Town Council approved \$3.2 million of supplemental appropriations for a variety of capital purchases, as well as transfers to Town stabilization funds.

Actual revenues received exceeded anticipated amounts by \$601,000 during 2017. Additionally, unexpended appropriations totaled \$621,000.

### **Capital Asset and Debt Administration**

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$133.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, equipment, vehicles, infrastructure, and other improvements. The primary capital additions during the year were associated with the completion of the new middle/high school, as well as construction costs associated with the Miller Field project.

At the end of the year the Town had total bonded debt outstanding of \$58.3 million of which \$54.2 million is related to governmental projects, \$3.6 million relates to water & sewer enterprise fund, \$220,000 is related to the skating rink enterprise fund, and the balance of \$195,000 relates to harbor/waterways.

Please refer to notes 4, 7, and 8 to the financial statements for further discussion of the major capital and debt activity.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town of Winthrop'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 Chief Financial Officer, 1 Metcalf Square, Winthrop, Massachusetts 02152.

# ***Basic Financial Statements***

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**STATEMENT OF NET POSITION**

JUNE 30, 2017

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 21,648,072	\$ 1,577,675	\$ 23,225,747
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	743,121	-	743,121
Tax liens.....	443,662	-	443,662
Motor vehicle and boat excise taxes.....	377,526	75,617	453,143
User fees.....	-	2,891,315	2,891,315
Departmental and other.....	32,988	-	32,988
Special assessments.....	-	31,185	31,185
Intergovernmental.....	1,353,610	-	1,353,610
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Special assessments.....	-	118	118
Capital assets:			
Nondepreciable.....	5,978,769	50,882	6,029,651
Depreciable.....	110,044,417	17,363,727	127,408,144
<b>TOTAL ASSETS.....</b>	<b>140,622,165</b>	<b>21,990,519</b>	<b>162,612,684</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions.....	3,779,000	434,000	4,213,000
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,136,804	27,941	3,164,745
Accrued payroll.....	220,557	44,477	265,034
Accrued interest.....	677,257	5,680	682,937
Payroll withholdings.....	308,364	-	308,364
Abandoned property.....	45,143	-	45,143
Capital lease obligations.....	272,546	-	272,546
Compensated absences.....	135,000	-	135,000
Bonds payable.....	2,308,722	690,035	2,998,757
<b>NONCURRENT:</b>			
Capital lease obligations.....	391,127	-	391,127
Compensated absences.....	400,000	-	400,000
Other postemployment benefits.....	25,374,959	684,495	26,059,454
Net pension liability.....	13,979,000	1,606,000	15,585,000
Bonds payable.....	51,932,143	3,371,640	55,303,783
<b>TOTAL LIABILITIES.....</b>	<b>99,181,622</b>	<b>6,430,268</b>	<b>105,611,890</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions.....	1,155,000	131,000	1,286,000
<b>NET POSITION</b>			
Net investment in capital assets.....	63,278,018	13,352,934	76,630,952
Restricted for:			
Permanent funds:			
Nonexpendable.....	628,826	-	628,826
Expendable.....	93,133	-	93,133
Gifts and grants.....	413,294	-	413,294
Unrestricted.....	(20,348,728)	2,510,317	(17,838,411)
<b>TOTAL NET POSITION.....</b>	<b>\$ 44,064,543</b>	<b>\$ 15,863,251</b>	<b>\$ 59,927,794</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 5,280,624	\$ 511,848	\$ 36,768	\$ 702,492	\$ (4,029,516)
Public safety.....	12,322,472	839,474	350,205	199,606	(10,933,187)
Education.....	37,168,262	990,836	13,174,087	1,958,362	(21,044,977)
Public works.....	5,016,877	87,925	611,813	171,863	(4,145,276)
Human services.....	585,743	49,694	36,176	22,279	(477,594)
Library.....	1,000,169	12,013	102,070	16,884	(869,202)
Interest.....	1,714,447	-	-	-	(1,714,447)
<b>Total Governmental Activities.....</b>	<b>63,088,594</b>	<b>2,491,790</b>	<b>14,311,119</b>	<b>3,071,486</b>	<b>(43,214,199)</b>
<i>Business-Type Activities:</i>					
Water & Sewer.....	6,581,084	7,809,287	-	-	1,228,203
Skating rink.....	305,648	346,566	-	-	40,918
Harbor/Waterways.....	269,346	290,829	12,000	-	33,483
Recreation.....	365,459	369,578	-	-	4,119
Ferry, tourism and culture.....	425,456	116,949	-	51,400	(257,107)
<b>Total Business-Type Activities.....</b>	<b>7,946,993</b>	<b>8,933,209</b>	<b>12,000</b>	<b>51,400</b>	<b>1,049,616</b>
<b>Total Primary Government.....</b>	<b>\$ 71,035,587</b>	<b>\$ 11,424,999</b>	<b>\$ 14,323,119</b>	<b>\$ 3,122,886</b>	<b>\$ (42,164,583)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ (43,214,199)	\$ 1,049,616	\$ (42,164,583)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	29,960,613	-	29,960,613
Tax liens.....	199,820	-	199,820
Motor vehicle and boat excise taxes.....	2,147,630	51,080	2,198,710
Hotel, motel and meals tax.....	293,807	-	293,807
Penalties and interest on taxes.....	281,098	-	281,098
Grants and contributions not restricted to specific programs.....	6,088,580	-	6,088,580
Unrestricted investment income.....	189,335	4,474	193,809
<i>Transfers, net</i> .....	321,194	(321,194)	-
Total general revenues and transfers.....	39,482,077	(265,640)	39,216,437
Change in net position.....	(3,732,122)	783,976	(2,948,146)
<i>Net Position:</i>			
Beginning of year.....	47,796,665	15,079,275	62,875,940
End of year.....	\$ 44,064,543	\$ 15,863,251	\$ 59,927,794

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2017

	General	Middle/High School Project	Lewis Lake Project	Miller Field Construction Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 7,391,431	\$ -	\$ 2,438,031	\$ 9,078,467	\$ 2,740,143	\$ 21,648,072
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	743,121	-	-	-	-	743,121
Tax liens.....	443,662	-	-	-	-	443,662
Motor vehicle excise taxes.....	377,526	-	-	-	-	377,526
Departmental and other.....	32,988	-	-	-	-	32,988
Intergovernmental.....	-	1,301,594	-	-	52,016	1,353,610
Due from other funds.....	192,233	-	-	-	-	192,233
<b>TOTAL ASSETS.....</b>	<b>\$ 9,180,961</b>	<b>\$ 1,301,594</b>	<b>\$ 2,438,031</b>	<b>\$ 9,078,467</b>	<b>\$ 2,792,159</b>	<b>\$ 24,791,212</b>
<b>LIABILITIES</b>						
Warrants payable.....	\$ 254,351	\$ 2,159,370	\$ -	\$ 562,269	\$ 160,814	\$ 3,136,804
Accrued payroll.....	215,407	-	-	-	5,150	220,557
Payroll withholdings.....	308,364	-	-	-	-	308,364
Abandoned property.....	45,143	-	-	-	-	45,143
Due to other funds.....	-	192,233	-	-	-	192,233
<b>TOTAL LIABILITIES.....</b>	<b>823,265</b>	<b>2,351,603</b>	<b>-</b>	<b>562,269</b>	<b>165,964</b>	<b>3,903,101</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues.....	1,373,030	-	-	-	52,016	1,425,046
<b>FUND BALANCES</b>						
Nonspendable.....	-	-	-	-	628,826	628,826
Restricted.....	-	-	2,438,031	8,516,198	1,945,353	12,899,582
Committed.....	464,169	-	-	-	-	464,169
Assigned.....	180,503	-	-	-	-	180,503
Unassigned.....	6,339,994	(1,050,009)	-	-	-	5,289,985
<b>TOTAL FUND BALANCES.....</b>	<b>6,984,666</b>	<b>(1,050,009)</b>	<b>2,438,031</b>	<b>8,516,198</b>	<b>2,574,179</b>	<b>19,463,065</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 9,180,961</b>	<b>\$ 1,301,594</b>	<b>\$ 2,438,031</b>	<b>\$ 9,078,467</b>	<b>\$ 2,792,159</b>	<b>\$ 24,791,212</b>

See notes to basic financial statements.

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

JUNE 30, 2017

Total governmental fund balances.....	\$	19,463,065
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		116,023,186
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		1,425,046
Certain changes in the net pension liability are required to be included in pension expenses over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		2,624,000
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(677,257)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(52,250,000)	
Unamortized premiums on bonds payable.....	(1,990,865)	
Capital lease obligations.....	(663,673)	
Compensated absences.....	(535,000)	
Other postemployment benefits.....	(25,374,959)	
Net pension liability.....	<u>(13,979,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(94,793,497)</u>
Net position of governmental activities.....	\$	<u><u>44,064,543</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2017

	General	Middle/High School Project	Lewis Lake Project	Miller Field Construction Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Real estate and personal property taxes, net of tax refunds.....	\$ 29,984,829	\$ -	\$ -	\$ -	\$ -	\$ 29,984,829
Tax liens.....	192,525	-	-	-	-	192,525
Motor vehicle and boat excise taxes.....	2,091,151	-	-	-	-	2,091,151
Hotel, motel and meal tax.....	293,807	-	-	-	-	293,807
Penalties and interest on taxes.....	249,130	-	-	-	-	249,130
Charges for services.....	-	-	-	-	1,086,458	1,086,458
Payments in lieu of taxes.....	11,273	-	-	-	-	11,273
Licenses and permits.....	736,834	-	-	-	-	736,834
Fines and forfeitures.....	57,085	-	-	-	-	57,085
Intergovernmental.....	16,718,222	1,920,070	-	-	4,867,730	23,506,022
Departmental and other.....	532,502	-	-	-	384,376	916,878
Contributions.....	-	-	-	-	118,256	118,256
Investment income.....	162,456	-	-	-	26,879	189,335
<b>TOTAL REVENUES.....</b>	<b>51,029,814</b>	<b>1,920,070</b>	<b>-</b>	<b>-</b>	<b>6,483,699</b>	<b>59,433,583</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	2,295,432	-	-	-	1,012,217	3,307,649
Public safety.....	6,285,148	-	-	-	648,348	6,933,496
Education.....	27,299,856	8,265,679	-	1,283,802	3,562,726	40,412,063
Public works.....	2,685,518	-	245,016	-	1,699,602	4,630,136
Human services.....	440,538	-	-	-	76,101	516,639
Library.....	520,559	-	-	-	179,692	700,251
Shared expenses.....	824,885	-	-	-	-	824,885
Pension benefits.....	2,087,906	-	-	-	-	2,087,906
Employee benefits.....	3,873,518	-	-	-	-	3,873,518
State and county charges.....	698,047	-	-	-	-	698,047
Capital outlay.....	1,570,068	-	-	-	-	1,570,068
Debt service:						
Principal.....	1,670,000	-	-	-	-	1,670,000
Interest.....	1,422,425	-	-	-	-	1,422,425
<b>TOTAL EXPENDITURES.....</b>	<b>51,673,900</b>	<b>8,265,679</b>	<b>245,016</b>	<b>1,283,802</b>	<b>7,178,686</b>	<b>68,647,083</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(644,086)</b>	<b>(6,345,609)</b>	<b>(245,016)</b>	<b>(1,283,802)</b>	<b>(694,987)</b>	<b>(9,213,500)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of long-term debt.....	-	3,836,000	-	8,959,000	-	12,795,000
Premium from issuance of bonds.....	-	164,000	-	841,000	161,152	1,166,152
Transfers in.....	649,064	-	-	-	112,524	761,588
Transfers out.....	(278,448)	-	-	-	(161,946)	(440,394)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>370,616</b>	<b>4,000,000</b>	<b>-</b>	<b>9,800,000</b>	<b>111,730</b>	<b>14,282,346</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(273,470)</b>	<b>(2,345,609)</b>	<b>(245,016)</b>	<b>8,516,198</b>	<b>(583,257)</b>	<b>5,068,846</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>7,258,136</b>	<b>1,295,600</b>	<b>2,683,047</b>	<b>-</b>	<b>3,157,436</b>	<b>14,394,219</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 6,984,666</b>	<b>\$ (1,050,009)</b>	<b>\$ 2,438,031</b>	<b>\$ 8,516,198</b>	<b>\$ 2,574,179</b>	<b>\$ 19,463,065</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds..... \$ 5,068,846

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	12,240,984
Depreciation expense.....	<u>(3,640,539)</u>

Net effect of reporting capital assets..... 8,600,445

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue..... (398,305)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Issuance of bonds.....	(12,795,000)
Premium from issuance of bonds.....	(1,166,152)
Debt service principal payments.....	<u>1,670,000</u>

Net effect of reporting long-term debt..... (12,291,152)

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

Net change in accrued interest on long-term debt.....	(378,490)
Net change in capital lease obligations.....	304,617
Net change in compensated absences accrual.....	(3,000)
Amortization of premium from issuance of bonds.....	86,468
Net change in other postemployment benefit accrual.....	(4,584,054)
Net change in deferred outflow/(inflow) of resources related to pensions.....	(735,672)
Net change in net pension liability.....	<u>598,175</u>

Net effect of recording long-term liabilities and amortizing deferred losses..... (4,711,956)

Change in net position of governmental activities..... \$ (3,732,122)

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2017

	Business-type Activities - Enterprise Funds					
	Water & Sewer	Skating Rink	Harbor/ Waterways	Recreation	Ferry, Tourism and Culture	Total
<b>ASSETS</b>						
<b>CURRENT:</b>						
Cash and cash equivalents.....	\$ 1,254,106	\$ 33,844	\$ 241,362	\$ 12,070	\$ 36,293	\$ 1,577,675
Receivables, net of allowance for uncollectibles:						
Boat excise tax.....	-	-	75,617	-	-	75,617
User fees.....	2,891,315	-	-	-	-	2,891,315
Special assessments.....	31,185	-	-	-	-	31,185
Total current assets.....	<u>4,176,606</u>	<u>33,844</u>	<u>316,979</u>	<u>12,070</u>	<u>36,293</u>	<u>4,575,792</u>
<b>NONCURRENT:</b>						
Receivables, net of allowance for uncollectibles:						
Special assessments.....	118	-	-	-	-	118
Capital assets, net of accumulated depreciation:						
Nondepreciable.....	50,882	-	-	-	-	50,882
Depreciable.....	10,471,120	1,611,317	4,003,335	428,309	849,646	17,363,727
Total noncurrent assets.....	<u>10,522,120</u>	<u>1,611,317</u>	<u>4,003,335</u>	<u>428,309</u>	<u>849,646</u>	<u>17,414,727</u>
<b>TOTAL ASSETS.....</b>	<u>14,698,726</u>	<u>1,645,161</u>	<u>4,320,314</u>	<u>440,379</u>	<u>885,939</u>	<u>21,990,519</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources related to pensions.....	295,000	38,000	46,000	55,000	-	434,000
<b>LIABILITIES</b>						
<b>CURRENT:</b>						
Warrants payable.....	16,302	4,029	1,459	4,099	2,052	27,941
Accrued payroll.....	21,928	1,511	8,010	3,989	9,039	44,477
Accrued interest.....	-	2,665	3,015	-	-	5,680
Bonds payable.....	585,035	50,000	55,000	-	-	690,035
Total current liabilities.....	<u>623,265</u>	<u>58,205</u>	<u>67,484</u>	<u>8,088</u>	<u>11,091</u>	<u>768,133</u>
<b>NONCURRENT:</b>						
Other postemployment benefits.....	500,164	68,169	3,684	112,478	-	684,495
Net pension liability.....	1,092,000	141,000	168,000	205,000	-	1,606,000
Bonds payable.....	3,061,640	170,000	140,000	-	-	3,371,640
Total noncurrent liabilities.....	<u>4,653,804</u>	<u>379,169</u>	<u>311,684</u>	<u>317,478</u>	<u>-</u>	<u>5,662,135</u>
<b>TOTAL LIABILITIES.....</b>	<u>5,277,069</u>	<u>437,374</u>	<u>379,168</u>	<u>325,566</u>	<u>11,091</u>	<u>6,430,268</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources related to pensions.....	88,000	12,000	14,000	17,000	-	131,000
<b>NET POSITION</b>						
Net investment in capital assets.....	6,875,327	1,391,317	3,808,335	428,309	849,646	13,352,934
Unrestricted.....	2,753,330	(157,530)	164,811	(275,496)	25,202	2,510,317
<b>TOTAL NET POSITION.....</b>	<u>\$ 9,628,657</u>	<u>\$ 1,233,787</u>	<u>\$ 3,973,146</u>	<u>\$ 152,813</u>	<u>\$ 874,848</u>	<u>\$ 15,863,251</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds					
	Water & Sewer	Skating Rink	Harbor/ Waterways	Recreation	Ferry, Tourism and Culture	Total
<b>OPERATING REVENUES:</b>						
Charges for services.....	\$ 7,695,079	\$ 346,566	\$ 290,829	\$ 369,578	\$ 116,949	\$ 8,819,001
Boat excise revenue.....	-	-	51,080	-	-	51,080
Intergovernmental.....	-	-	12,000	-	-	12,000
<b>TOTAL OPERATING REVENUES.....</b>	<b>7,695,079</b>	<b>346,566</b>	<b>353,909</b>	<b>369,578</b>	<b>116,949</b>	<b>8,882,081</b>
<b>OPERATING EXPENSES:</b>						
Cost of services and administration.....	4,596,664	243,903	138,100	351,638	325,498	5,655,803
MWRA assessment.....	1,646,899	-	-	-	-	1,646,899
Depreciation.....	337,521	53,142	123,579	13,821	99,958	628,021
<b>TOTAL OPERATING EXPENSES.....</b>	<b>6,581,084</b>	<b>297,045</b>	<b>261,679</b>	<b>365,459</b>	<b>425,456</b>	<b>7,930,723</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,113,995</b>	<b>49,521</b>	<b>92,230</b>	<b>4,119</b>	<b>(308,507)</b>	<b>951,358</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income.....	4,474	-	-	-	-	4,474
Interest expense.....	-	(8,603)	(7,667)	-	-	(16,270)
Penalties and interest.....	114,208	-	-	-	-	114,208
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>118,682</b>	<b>(8,603)</b>	<b>(7,667)</b>	<b>-</b>	<b>-</b>	<b>102,412</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS.....</b>	<b>1,232,677</b>	<b>40,918</b>	<b>84,563</b>	<b>4,119</b>	<b>(308,507)</b>	<b>1,053,770</b>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS:</b>						
Capital contributions - State grant revenue.....	-	-	-	-	51,400	51,400
Transfers in.....	95,000	-	19,000	-	175,000	289,000
Transfers out.....	(512,432)	(11,753)	(18,322)	(33,787)	(33,900)	(610,194)
<b>TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS..</b>	<b>(417,432)</b>	<b>(11,753)</b>	<b>678</b>	<b>(33,787)</b>	<b>192,500</b>	<b>(269,794)</b>
<b>CHANGE IN NET POSITION.....</b>	<b>815,245</b>	<b>29,165</b>	<b>85,241</b>	<b>(29,668)</b>	<b>(116,007)</b>	<b>783,976</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>8,813,412</b>	<b>1,204,622</b>	<b>3,887,905</b>	<b>182,481</b>	<b>990,855</b>	<b>15,079,275</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 9,628,657</b>	<b>\$ 1,233,787</b>	<b>\$ 3,973,146</b>	<b>\$ 152,813</b>	<b>\$ 874,848</b>	<b>\$ 15,863,251</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2017**

	Business-type Activities - Enterprise Funds					
	Water & Sewer	Skating Rink	Harbor/ Waterways	Recreation	Ferry, Tourism and Culture	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users.....	\$ 7,840,739	\$ 346,566	\$ 335,222	\$ 369,578	\$ 116,949	\$ 9,009,054
Receipts from other governments.....	-	-	12,000	-	-	12,000
Payments to vendors.....	(5,442,201)	(122,173)	(65,253)	(137,861)	(164,864)	(5,932,352)
Payments to employees.....	(1,148,632)	(107,879)	(170,325)	(287,221)	(153,118)	(1,867,175)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>1,249,906</b>	<b>116,514</b>	<b>111,644</b>	<b>(55,504)</b>	<b>(201,033)</b>	<b>1,221,527</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers in.....	95,000	-	19,000	-	175,000	289,000
Transfers out.....	(512,432)	(11,753)	(18,322)	(33,787)	(33,900)	(610,194)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(417,432)</b>	<b>(11,753)</b>	<b>678</b>	<b>(33,787)</b>	<b>141,100</b>	<b>(321,194)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets.....	(2,132,635)	(135,597)	(45,470)	-	-	(2,313,702)
Principal payments on bonds and notes.....	(657,811)	(50,000)	(50,000)	-	-	(757,811)
Interest expense.....	-	(10,290)	(9,355)	-	-	(19,645)
Capital contributions - State grant revenue.....	-	-	-	-	51,400	51,400
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(2,790,446)</b>	<b>(195,887)</b>	<b>(104,825)</b>	<b>-</b>	<b>51,400</b>	<b>(3,039,758)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Investment income.....	4,474	-	-	-	-	4,474
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(1,953,498)</b>	<b>(91,126)</b>	<b>7,497</b>	<b>(89,291)</b>	<b>(8,533)</b>	<b>(2,134,951)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>3,207,604</b>	<b>124,970</b>	<b>233,865</b>	<b>101,361</b>	<b>44,826</b>	<b>3,712,626</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 1,254,106</b>	<b>\$ 33,844</b>	<b>\$ 241,362</b>	<b>\$ 12,070</b>	<b>\$ 36,293</b>	<b>\$ 1,577,675</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 1,113,995	\$ 49,521	\$ 92,230	\$ 4,119	\$ (308,507)	\$ 951,358
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	337,521	53,142	123,579	13,821	99,958	628,021
Deferred (outflows)/inflows related to pensions.....	56,984	8,175	8,713	11,485	-	85,357
Penalties and interest.....	114,208	-	-	-	-	114,208
Changes in assets and liabilities:						
User fees.....	15,610	-	(6,687)	-	-	8,923
Special assessments.....	15,842	-	-	-	-	15,842
Warrants payable.....	2,999	1,534	1,459	4,099	1,252	11,343
Accrued payroll.....	7,050	318	2,735	(1,714)	6,264	14,653
Other postemployment liabilities.....	(360,912)	11,106	(101,738)	(77,613)	-	(529,157)
Net pension liability.....	(53,391)	(7,282)	(8,647)	(9,701)	-	(79,021)
Total adjustments.....	135,911	66,993	19,414	(59,623)	107,474	270,169
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 1,249,906</b>	<b>\$ 116,514</b>	<b>\$ 111,644</b>	<b>\$ (55,504)</b>	<b>\$ (201,033)</b>	<b>\$ 1,221,527</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	OPEB Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 378,964	\$ 250,788	\$ 328,464	\$ 50,242
Investments:				
Pension reserves investment trust.....	59,532,793	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	15,299	-	-	-
<b>TOTAL ASSETS.....</b>	<b>59,927,056</b>	<b>250,788</b>	<b>328,464</b>	<b>50,242</b>
<b>LIABILITIES</b>				
Warrants payable.....	169	-	-	1,081
Liabilities due depositors.....	-	-	-	49,161
<b>TOTAL LIABILITIES.....</b>	<b>169</b>	<b>-</b>	<b>-</b>	<b>50,242</b>
<b>NET POSITION</b>				
Restricted for pension benefits, OPEB benefits, and other purposes.....	\$ 59,926,887	\$ 250,788	\$ 328,464	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2017**

	Pension Trust Fund (as of December 31, 2016)	OPEB Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer contributions to the trust.....	\$ 3,245,235	\$ 150,000	\$ -
Employer contributions to pay benefit payments.....	-	1,934,575	-
Employee contributions.....	1,174,824	-	-
Employee contributions - transfers from other systems.....	45,994	-	-
Members' makeup payments and redeposits.....	2,561	-	-
Retirement benefits - 3(8)c contributions from other systems.....	106,675	-	-
Contributions.....	-	-	94,687
Total contributions.....	4,575,289	2,084,575	94,687
Net investment income:			
Investment income.....	4,385,328	521	3,031
Less: investment expense.....	(305,151)	-	-
Net investment income.....	4,080,177	521	3,031
TOTAL ADDITIONS.....	8,655,466	2,085,096	97,718
<b>DEDUCTIONS:</b>			
Administration.....	126,263	-	-
Member contributions - transfers to other systems.....	189,580	-	-
Retirement benefits - 3(8)c payments to other systems.....	261,497	-	-
Benefit payments.....	3,583,074	1,934,575	-
Educational scholarships.....	-	-	85,421
TOTAL DEDUCTIONS.....	4,160,414	1,934,575	85,421
CHANGE IN NET POSITION.....	4,495,052	150,521	12,297
NET POSITION AT BEGINNING OF YEAR.....	55,431,835	100,267	316,167
NET POSITION AT END OF YEAR.....	\$ 59,926,887	\$ 250,788	\$ 328,464

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Winthrop, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

**A. Reporting Entity**

The Town is a municipal corporation that is governed by an elected Town Council. As required by GAAP, these basic financial statements present the government and its component units, entities for which the Town is considered to be financially accountable.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the Town and the component unit.

The Winthrop Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five-member board comprised of the CFO of the Town (ex-officio), two members elected by the System's participants, one member appointed by the Town Council and one member appointed by the other board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 1 Metcalf Square, Winthrop, Massachusetts, 02152.

**Joint Ventures**

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town has entered into a joint venture with the Cities of Woburn, Chelsea, Malden, and Revere and the Towns of Melrose, North Reading, Saugus, Stoneham, Wakefield and Winchester to pool resources and share the costs, risks and rewards of providing vocational education through the Northeast Metropolitan Regional Vocational School District (NMRS). The Town's assessment for 2017 was \$817,092. Stand-alone financial statements for the year ended June 30, 2017 are available at Northeast Metropolitan Regional Vocational School District, 100 Hemlock Road, Wakefield, Massachusetts 01880.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

### *Fund Financial Statements*

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

### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

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

Internal service funds and fiduciary funds are reported by fund type.

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

### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues. For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the net effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., 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 personal property tax revenues are considered available if they are collected within 60 days after 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.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *middle/high school capital project fund* is used to account for activity associated with the construction of the new middle/high school.

The *Lewis lake project fund* is used to account for activity associated with the drainage improvements at Lewis lake and the corresponding funding sources.

The *Miller Field construction project fund* is used to account for the activity associated with the construction of the Miller Field and the corresponding funding sources.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital project.

The *capital projects fund* is used to account for financial 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 of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The water & sewer, skating rink, harbor/waterways, recreation, and ferry, tourism and culture enterprise funds are utilized to account for user fees/charges collected to finance costs associated with the respective activities.

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

The following fiduciary fund types are reported:

The *pension trust fund* is used account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *OPEB trust fund* accumulates resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical

expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories: Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Real Estate, Real Estate Tax Deferrals, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate tax liens are processed by the last day in September following the last billing cycle on delinquent properties. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed. Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Motor Vehicle and Other Excise Taxes**

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**Water and Sewer Fees**

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist of receivables related to the System and are recorded as receivables in the year accrued.

The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**G. Inventories*****Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

**H. Capital Assets*****Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or

business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	20 - 40
Park land improvements.....	20
Equipment.....	5-10
Vehicles.....	5-15
Infrastructure.....	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred charges on refunding and deferred outflows of resources related to pensions in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has reported deferred inflows of resources related to pensions in this category.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not

available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental fund balance sheet.

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

#### J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

##### *Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances."

##### *Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

#### K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

##### *Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net."

##### *Fund Financial Statements*

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

#### L. Net Position and Fund Equity

##### *Government-Wide Financial Statements (Net Position)*

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Permanent funds – nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Permanent funds – expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Gifts and grants” represents restrictions placed on assets from outside parties such as state and federal grants.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### *Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of town meeting. Town meeting can, by adoption of a Town Meeting warrant article, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s Chief Financial Officer is authorized to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation.

Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

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

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### N. Pensions

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

#### O. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

#### P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

### Q. Use of Estimates

#### *Government-Wide and Fund Financial Statements*

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

### R. Total Column

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

### S. Fund Deficits

The Middle/High School Project fund has a year-end deficit of \$1,050,009. This deficit will be funded through future reimbursements from the Massachusetts School Building Authority and funding from the Town.

## **NOTE 2 – CASH AND INVESTMENTS**

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

The Retirement System participates, as a Participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and Treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .14 to 24.23 years.

MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months.

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. At year-end, the carrying amount of deposits totaled \$17,235,426 and the bank balance totaled \$18,175,884. Of the bank balance, \$1,518,356 was covered by Federal Depository Insurance, \$11,575,496 was covered by the Depositors Insurance Fund (DIF), \$713,501 was covered by the Share Insurance Fund (SIF) and \$4,368,531 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Town has not adopted a formal investment policy related to custodial credit risk of deposits.

The Town maintains a policy that addresses the custodial credit risk of deposits. The Town Treasurer performs a quarterly analysis, using a commercially available bank rating service, of the performance of banking institutions that have custody of Town deposits. The Town will only utilize banks that maintain the highest possible performance rating; however, additional factors such as yield, liquidity and safety of principle may cause the Town to deposit funds with institutions that have not achieved the highest possible performance rating. In those instances, the Town Treasurer will obtain appropriate account collateralization to ensure the safety of Town funds. In lieu of obtaining account collateralization, the Town Treasurer may opt to move Town deposits to an institution that has achieved the highest possible performance rating.

At December 31, 2016, the carrying amount of deposits for the System totaled \$378,964 and the bank balance totaled \$391,832 all of which was covered by Federal Depository Insurance.

#### Investments

As of June 30, 2017, the Town had \$6,619,815 invested in MMDT.

As of December 31, 2016, the System had the \$59,832,793 invested in the PRIT fund.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

Neither the Town nor the System is subject to custodial credit risk exposure for investments at year end.

The Town has not adopted a formal investment policy related to custodial credit risk for investments.

The System has not adopted a formal investment policy related to custodial credit risk.

#### Interest Rate Risk

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

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates for most investment types; however, at June 30, 2017, the Town did not have any investments that were subject to interest rate risk.

The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rate. However, when managing assets the System at all times must be in accordance with the provisions of the Public Employee Retirement Administration Commission (PERAC), the Employee Retirement Income Security Act (ERISA), and the Department of Labor regulations.

#### Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations.

The Town does not have a formal investment policy regarding credit risk. The Town's investment is MMDT is unrated.

The System has not adopted a formal policy related to credit risk. At December 31, 2016 the System does not have any investments that are subject to credit risk.

#### Concentration of Credit Risk

The Town has not adopted a policy on the amount that may be invested in any one issuer.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer.

#### Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a narrative format for the fair value disclosure.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2017, the Town had a balance in the MMDT cash portfolio of \$6,619,815. MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

#### **Retirement System**

At December 31, 2016, the System's investments in PRIT totaled \$59,532,793. PRIT investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

**NOTE 3 – RECEIVABLES**

At June 30, 2017, receivables for the individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 743,121	\$ -	\$ 743,121
Tax liens.....	443,662	-	443,662
Motor vehicle excise taxes.....	489,526	(112,000)	377,526
Departmental and other.....	32,988	-	32,988
Intergovernmental.....	1,353,610	-	1,353,610
 Total.....	 <u>\$ 3,062,907</u>	 <u>\$ (112,000)</u>	 <u>\$ 2,950,907</u>

At June 30, 2017, receivables for the enterprise funds consisted of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water & Sewer.....	\$ 2,891,315	\$ -	\$ 2,891,315
Harbor/Waterways.....	75,617	-	75,617
 Total.....	 <u>\$ 2,966,932</u>	 <u>\$ -</u>	 <u>\$ 2,966,932</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 518,854	\$ -	\$ 518,854
Tax liens.....	443,662	-	443,662
Motor vehicle excise taxes.....	377,526	-	377,526
Departmental and other.....	32,988	-	32,988
Intergovernmental.....	-	52,016	52,016
 Total.....	 <u>\$ 1,373,030</u>	 <u>\$ 52,016</u>	 <u>\$ 1,425,046</u>

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,694,967	\$ -	\$ -	\$ 4,694,967
Construction in progress.....	-	1,283,802	-	1,283,802
Total capital assets not being depreciated.....	<u>4,694,967</u>	<u>1,283,802</u>	<u>-</u>	<u>5,978,769</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	108,268,800	8,314,910	-	116,583,710
Equipment.....	1,645,121	373,313	-	2,018,434
Vehicles.....	3,832,128	387,694	(1,416,840)	2,802,982
Infrastructure.....	<u>16,767,258</u>	<u>1,881,265</u>	<u>-</u>	<u>18,648,523</u>
Total capital assets being depreciated.....	<u>130,513,307</u>	<u>10,957,182</u>	<u>(1,416,840)</u>	<u>140,053,649</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(14,185,273)	(2,898,567)	-	(17,083,840)
Equipment.....	(911,097)	(128,024)	-	(1,039,121)
Vehicles.....	(3,114,135)	(316,932)	1,416,840	(2,014,227)
Infrastructure.....	<u>(9,575,028)</u>	<u>(297,016)</u>	<u>-</u>	<u>(9,872,044)</u>
Total accumulated depreciation.....	<u>(27,785,533)</u>	<u>(3,640,539)</u>	<u>1,416,840</u>	<u>(30,009,232)</u>
Total capital assets being depreciated, net.....	<u>102,727,774</u>	<u>7,316,643</u>	<u>-</u>	<u>110,044,417</u>
Total governmental activities capital assets, net.....	<u>\$ 107,422,741</u>	<u>\$ 8,600,445</u>	<u>\$ -</u>	<u>\$ 116,023,186</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water &amp; Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 50,882	\$ -	\$ -	\$ 50,882
<u>Capital assets being depreciated:</u>				
Equipment.....	1,264,548	-	-	1,264,548
Vehicles.....	264,390	22,405	-	286,795
Infrastructure.....	11,351,899	1,500,310	-	12,852,209
Total capital assets being depreciated.....	12,880,837	1,522,715	-	14,403,552
<u>Less accumulated depreciation for:</u>				
Equipment.....	(111,802)	(123,680)	-	(235,482)
Vehicles.....	(264,390)	(2,240)	-	(266,630)
Infrastructure.....	(3,218,719)	(211,601)	-	(3,430,320)
Total accumulated depreciation.....	(3,594,911)	(337,521)	-	(3,932,432)
Total capital assets being depreciated, net.....	9,285,926	1,185,194	-	10,471,120
Total water & sewer activities capital assets, net.....	\$ 9,336,808	\$ 1,185,194	\$ -	\$ 10,522,002
<b>Skating Rink Activities:</b>				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 2,388,886	\$ 135,597	\$ -	\$ 2,524,483
Equipment.....	105,897	-	-	105,897
Total capital assets being depreciated.....	2,494,783	135,597	-	2,630,380
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(913,079)	(46,327)	-	(959,406)
Equipment.....	(52,842)	(6,815)	-	(59,657)
Total accumulated depreciation.....	(965,921)	(53,142)	-	(1,019,063)
Total skating rink activities capital assets, net.....	\$ 1,528,862	\$ 82,455	\$ -	\$ 1,611,317

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Harbor/Waterways Activities:</b>				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 709,952	\$ -	\$ -	\$ 709,952
Equipment.....	126,561	-	-	126,561
Vehicles.....	140,872	-	-	140,872
Infrastructure.....	4,074,214	45,470	-	4,119,684
Total capital assets being depreciated.....	5,051,599	45,470	-	5,097,069
<u>Less accumulated depreciation for:</u>				
Building improvements.....	(79,670)	(17,749)	-	(97,419)
Equipment.....	(19,172)	(11,506)	-	(30,678)
Vehicles.....	(139,977)	(896)	-	(140,873)
Infrastructure.....	(731,336)	(93,428)	-	(824,764)
Total accumulated depreciation.....	(970,155)	(123,579)	-	(1,093,734)
Total harbor/waterways activities capital assets, net.....	\$ 4,081,444	\$ (78,109)	\$ -	\$ 4,003,335
<b>Recreation Activities:</b>				
<u>Capital assets being depreciated:</u>				
Park land improvements.....	\$ 558,622	\$ -	\$ -	\$ 558,622
Vehicles.....	23,689	-	-	23,689
Total capital assets being depreciated.....	582,311	-	-	582,311
<u>Less accumulated depreciation for:</u>				
Park land improvements.....	(116,492)	(13,821)	-	(130,313)
Vehicles.....	(23,689)	-	-	(23,689)
Total accumulated depreciation.....	(140,181)	(13,821)	-	(154,002)
Total recreation activities capital assets, net.....	\$ 442,130	\$ (13,821)	\$ -	\$ 428,309
<b>Ferry, Tourism and Culture Activities:</b>				
<u>Capital assets being depreciated:</u>				
Equipment.....	\$ 999,583	\$ -	\$ -	\$ 999,583
<u>Less accumulated depreciation for:</u>				
Equipment.....	(49,979)	(99,958)	-	(149,937)
Total ferry, tourism and culture activities capital assets, net.....	\$ 949,604	\$ (99,958)	\$ -	\$ 849,646

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

<b>Governmental Activities:</b>	
General government.....	\$ 79,069
Public safety.....	206,603
Education.....	2,809,642
Public works.....	507,376
Human services.....	15,821
Culture and recreation.....	<u>22,028</u>
Total depreciation expense - governmental activities.....	<u>\$ 3,640,539</u>
<b>Business-Type Activities:</b>	
Water & sewer.....	\$ 337,521
Skating rink.....	53,142
Harbor/waterways.....	123,579
Recreation.....	13,821
Ferry, tourism and culture.....	<u>99,958</u>
Total depreciation expense - business-type activities.....	<u>\$ 628,021</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the year ended June 30, 2017 are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Nonmajor Governmental Funds	Ferry, Tourism and Culture Enterprise	Water & Sewer Enterprise	Harbor/Waterways Enterprise	
General Fund.....	\$ -	\$ 103,448	\$ 175,000	\$ -	\$ -	278,448 (1)
Nonmajor Governmental Funds.....	38,870	9,076	-	95,000	19,000	161,946 (2)
Water & Sewer Enterprise.....	512,432	-	-	-	-	512,432 (3)
Skating Rink Enterprise.....	11,753	-	-	-	-	11,753 (3)
Recreation Enterprise.....	33,787	-	-	-	-	33,787 (3)
Harbor/Waterways Enterprise.....	18,322	-	-	-	-	18,322 (3)
Ferry, Tourism and Culture Enterprise....	<u>33,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,900 (3)</u>
Total.....	<u>\$ 649,064</u>	<u>\$ 112,524</u>	<u>\$ 175,000</u>	<u>\$ 95,000</u>	<u>\$ 19,000</u>	<u>1,050,588</u>

- (1) Budgeted transfers from the general fund to nonmajor governmental funds for grant matching purposes, as well as to the Ferry, Tourism, and Culture enterprise fund to subsidize operations.
- (2) Budgeted transfers from nonmajor governmental funds to the general fund and enterprise funds for capital related costs.
- (3) Budgeted transfers to the general fund from the enterprise funds for administrative costs.

**NOTE 6 – CAPITAL LEASES**

The Town has entered into lease agreements as lessee for a fire pumper truck, iPad tablets, school vehicles, as well as for a number of other equipment purchases. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Equipment.....	\$ 2,061,314
Less: accumulated depreciation.....	<u>(982,598)</u>
Total.....	<u>\$ 1,078,716</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

<u>Years Ending June 30,</u>	<u>Governmental Activities</u>
2018.....	\$ 287,518
2019.....	123,374
2020.....	123,374
2021.....	84,233
2022.....	<u>84,233</u>
Total minimum lease payments.....	702,732
Less: amounts representing interest.....	<u>(39,059)</u>
Present value of minimum lease payments.....	<u>\$ 663,673</u>

**NOTE 7 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund respectively.

The Town had no short-term debt activity during the year.

**NOTE 8 – LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

Details related to the outstanding indebtedness at June 30, 2017, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Issue	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Municipal Purpose Bonds of 2008.....	2018	3.00-4.50%	\$ 100,000	\$ -	\$ 50,000	\$ 50,000
Municipal Purpose Bonds of 2012.....	2021	2.25-3.00%	2,195,000	-	420,000	1,775,000
Municipal Purpose Bonds of 2015.....	2040	3.00-5.00%	35,535,000	-	935,000	34,600,000
Municipal Purpose Refunding Bonds of 2015.....	2025	2.00-4.00%	2,645,000	-	265,000	2,380,000
Municipal Purpose Bonds of 2017.....	2031	2.00-4.00%	650,000	12,795,000	-	13,445,000
Sub-total.....			41,125,000	12,795,000	1,670,000	52,250,000
Unamortized premium.....			911,181	1,166,152	86,468	1,990,865
Total.....			\$ 42,036,181	\$ 13,961,152	\$ 1,756,468	\$ 54,240,865

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2018..... \$	2,060,000	\$ 2,146,816	\$ 4,206,816
2019.....	2,340,000	1,823,679	4,163,679
2020.....	2,410,000	1,748,954	4,158,954
2021.....	2,490,000	1,662,253	4,152,253
2022.....	2,110,000	1,573,053	3,683,053
2023.....	2,205,000	1,483,404	3,688,404
2024.....	2,295,000	1,386,128	3,681,128
2025.....	2,385,000	1,295,577	3,680,577
2026.....	2,155,000	1,189,852	3,344,852
2027.....	2,245,000	1,092,977	3,337,977
2028.....	2,340,000	1,001,852	3,341,852
2029.....	2,420,000	921,602	3,341,602
2030.....	2,505,000	837,227	3,342,227
2031.....	2,595,000	748,508	3,343,508
2032.....	2,620,000	657,251	3,277,251
2033.....	1,890,000	580,853	2,470,853
2034.....	1,950,000	518,814	2,468,814
2035.....	2,020,000	452,246	2,472,246
2036.....	2,085,000	381,864	2,466,864
2037.....	2,160,000	307,989	2,467,989
2038.....	2,240,000	230,968	2,470,968
2039.....	2,320,000	147,700	2,467,700
2040.....	2,410,000	57,688	2,467,688
Total..... \$	\$ 52,250,000	\$ 22,247,255	\$ 74,497,255

**Bonds and Notes Payable Schedule – Enterprise Funds**

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. The majority of the Town’s Water & Sewer Enterprise Fund debt is issued through this program. The interest imputed on the remaining life of the 0% MWRA bonds is immaterial to the financial statements and therefore no adjustments have been made to recognize the imputed interest.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant, a loan and a grant to forgive interest on the loan. The loan portion is payable in either five or ten equal annual installments. At June 30, 2017, the outstanding principal amount of these loans totaled \$3.6 million.

Issue	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
<b>Water &amp; Sewer:</b>						
MWRA Sewer Bond of 2012.....	2017	0.00%	\$ 72,776	\$ -	\$ 72,776	\$ -
MWRA Sewer Bond of 2016.....	2026	0.00%	308,750	-	51,075	257,675
MWRA Water Bond of 2008.....	2019	0.00%	96,900	-	32,300	64,600
MWRA Water Bond of 2012.....	2022	0.00%	1,022,760	-	170,460	852,300
MWRA Water Bond of 2013.....	2023	0.00%	525,000	-	75,000	450,000
MWRA Water Bond of 2014.....	2024	0.00%	220,000	-	27,500	192,500
MWRA Water Bond of 2015.....	2024	0.00%	2,058,300	-	228,700	1,829,600
Total Water & Sewer bonds payable.....			4,304,486	-	657,811	3,646,675
<b>Skating Rink:</b>						
General Obligation Bonds of 2008.....	2021	3.00-4.50%	270,000	-	50,000	220,000
<b>Harbor/Waterways:</b>						
General Obligation Bonds of 2008.....	2021	3.00-4.500%	245,000	-	50,000	195,000
Total Enterprise Bonds Payable.....			\$ 4,869,486	\$ -	\$ 757,811	\$ 4,061,675

Debt service requirements for principal and interest for Enterprise bonds payable in future years are as follows:

Year	Principal	Interest	Total
2018.....	\$ 690,035	\$ 15,146	\$ 705,181
2019.....	685,035	11,470	696,505
2020.....	652,735	7,572	660,307
2021.....	662,735	4,070	666,805
2022.....	512,335	-	512,335
2023.....	341,875	-	341,875
2024.....	266,875	-	266,875
2025.....	239,375	-	239,375
2026.....	10,675	-	10,675
Total.....	\$ 4,061,675	\$ 38,258	\$ 4,099,933

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the Town had the following authorized and unissued debt:

Purpose	Amount
Sewer mains.....	\$ 252,495
Middle/high school building.....	3,401,641
Water mains, streets and sidewalks.....	1,113,000
Sewer.....	20,920
Rink Renovations.....	600,000
<b>Total.....</b>	<b>\$ 5,388,056</b>

**Changes in Long-term Liabilities**

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance at June 30, 2016	Bonds Issued	Bonds Redeemed	Other Increase	Other (Decrease)	Balance at June 30, 2017	Current Portion
<b>Governmental Activities:</b>							
Long-term bonds.....	\$ 41,125,000	\$ 12,795,000	\$ (1,670,000)	\$ -	\$ -	\$ 52,250,000	\$ 2,060,000
Unamortized premium.....	911,181	1,166,152	-	-	(86,468)	1,990,865	248,722
Bonds payable, net.....	42,036,181	13,961,152	(1,670,000)	-	(86,468)	54,240,865	2,308,722
Capital lease obligations.....	968,290	-	-	-	(304,617)	663,673	272,546
Compensated absences.....	532,000	-	-	124,000	(121,000)	535,000	135,000
Other postemployment benefits.....	20,790,905	-	-	5,964,686	(1,380,632)	25,374,959	-
Net pension liability.....	16,121,357	-	-	1,766,147	(3,908,504)	13,979,000	-
<b>Total.....</b>	<b>\$ 80,448,733</b>	<b>\$ 13,961,152</b>	<b>\$ (1,670,000)</b>	<b>\$ 7,854,833</b>	<b>\$ (5,801,221)</b>	<b>\$ 94,793,497</b>	<b>\$ 2,716,268</b>
<b>Business-Type Activities:</b>							
Long-term bonds.....	\$ 4,819,486	-	\$ (757,811)	-	-	\$ 4,061,675	\$ 690,035
Other postemployment benefits.....	1,213,652	-	-	174,786	(703,943)	684,495	-
Net pension liability.....	1,863,517	-	-	189,147	(446,664)	1,606,000	-
<b>Total.....</b>	<b>\$ 7,896,655</b>	<b>\$ -</b>	<b>\$ (757,811)</b>	<b>\$ 363,933</b>	<b>\$ (1,150,607)</b>	<b>\$ 6,352,170</b>	<b>\$ 690,035</b>

The governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

**NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town classifies fund balance according to constraints imposed on the uses of those resources.

There are two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories,

and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balances, GASB Statement #54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The Town’s highest level of decision making authority is the Town Council.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2017, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Middle/High School Project</u>	<u>Lewis Lake Project</u>	<u>Miller Field Construction Project</u>	<u>Nonmajor Governmental Funds</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	\$ 628,826
Restricted for:					
Lewis Lake Challenge.....	-	-	2,438,031	8,516,198	-
Town revolving funds.....	-	-	-	-	1,176,229
Town gift and grant funds.....	-	-	-	-	102,540
School revolving funds.....	-	-	-	-	418,916
School gift and grant funds.....	-	-	-	-	2,079
Other capital projects.....	-	-	-	-	152,456
Cemetery perpetual care.....	-	-	-	-	28,386
Other permanent funds.....	-	-	-	-	64,747
Committed to:					
Capital outlay.....	464,169	-	-	-	-
Assigned to:					
Encumbrances:					
General government.....	66,779	-	-	-	-
Public safety.....	8,738	-	-	-	-
Public works.....	99,048	-	-	-	-
Human services.....	5,069	-	-	-	-
Culture and recreation.....	869	-	-	-	-
Unassigned.....	<u>6,339,994</u>	<u>(1,050,009)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES.....</b>	<b>\$ <u>6,984,666</u></b>	<b>\$ <u>(1,050,009)</u></b>	<b>\$ <u>2,438,031</u></b>	<b>\$ <u>8,516,198</u></b>	<b>\$ <u>2,574,179</u></b>

In addition to the nonspendable fund balance, spendable fund balances are classified based on a hierarchy of spending constraints. Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any changes to the purpose of the fund along with any additions to or appropriations from the fund required a two-thirds vote of the legislative body. At year end the balance of the General Stabilization fund is \$2,134,631, the Capital Stabilization fund is \$1,739,724, and the Building Maintenance Stabilization fund is \$200,863. The balance of all three stabilization funds is reported as unassigned fund balance within the general fund. Interest earnings in each stabilization fund are as follows: \$14,763 – General Stabilization; \$13,473 – Capital Stabilization Fund; \$1,536 – Building Maintenance Stabilization Fund.

**NOTE 10 – PENSION PLAN***Plan Descriptions*

The Town is a member of the Winthrop Contributory Retirement System (WCRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement #68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2016. The Town portion of the collective pension expense, contributed by the Commonwealth, of \$4,186,822 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$41,044,640 as of the measurement date.

*Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2016, the WCRS membership consists of the following:

Plan Membership:	
Active members.....	257
Inactive members.....	42
Retirees and beneficiaries currently receiving benefits.....	<u>186</u>
Total.....	<u><u>485</u></u>

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the WCRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2016 was \$3,245,000, 27.7% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Town's proportionate share of the required contribution was \$3,065,000 which equaled its actual contribution.

*Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2017 were as follows:

Total pension liability.....	\$ 76,383,000
The pension plan's fiduciary net position.....	<u>59,927,000</u>
The net pension liability.....	<u><u>\$ 16,456,000</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	78.5%

At June 30, 2017, the Town reported a liability of \$15,585,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2016, the Town's proportion was 94.71%, which changed from its proportion measured at December 31, 2015 of 94.29%.

*Pension Expense*

For the year ended June 30, 2017, the Town recognized pension expense of \$3,210,000. At June 30, 2017, the Town reported deferred outflows of resources related to pensions of \$4,213,000, from the net difference between projected and actual investment earnings on pension plan investments, changes in assumptions and changes in proportion and proportionate share of contributions. The Town reported deferred inflows of resources related to pensions of \$1,286,000 from the net difference between expected and actual experience.

The balances of deferred outflows/(inflows) at June 30, 2017 consist of the following:

<u>Deferred category</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Differences between expected and actual experience.....	\$ -	\$ (1,286,000)	\$ (1,286,000)
Changes in proportion and proportionate share of contributions.....	45,000	-	45,000
Assumption changes.....	1,962,000	-	1,962,000
Differences between projected and actual earnings on investments.....	<u>2,206,000</u>	<u>-</u>	<u>2,206,000</u>
Total deferred outflows/(inflows) of resources.....	<u>\$ 4,213,000</u>	<u>\$ (1,286,000)</u>	<u>\$ 2,927,000</u>

The deferred outflows/(inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	
2018.....	\$ 982,000
2019.....	982,000
2020.....	935,000
2021.....	<u>28,000</u>
Total.....	<u>\$ 2,927,000</u>

*Actuarial Assumptions*

The total pension liability in the January 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date.....	January 1, 2015
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Total payments increase 4.0% per year until FY27 with a final amortization payment in FY28.
Remaining amortization period.....	12 years from July 1, 2016.
Asset valuation method.....	Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years.
Inflation rate.....	Not explicitly assumed.
Projected salary increases.....	Select and ultimate by job group; ultimate rates 4.25% for Group 1 and 4.75% for Group 4.
Cost of living adjustments.....	3.0% of first \$12,000.
Mortality Rates:	
Pre-Retirement.....	Pre-retirement rates reflect the RP-2000 Employees table projected 20 years with Scale AA (gender distinct).
Post-Retirement.....	Post-retirement rates reflect the RP-2000 Healthy Annuity table projected 15 years with Scale AA (gender distinct).
Disabled Retiree.....	Disabled retirement rates reflect the RP-2000 Healthy Annuity table projected 2 years with Scale AA (gender distinct).
Investment rate of return/Discount rate.....	7.5%, net of pension plan investment expense, including inflation.

*Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

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 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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equities.....	14.50%	7.50%
Small/Mid Cap Equities.....	3.50%	7.75%
International Equities (Unhedged).....	16.00%	7.83%
Emerging International Equities.....	6.00%	9.61%
High-Yield Bonds.....	1.50%	5.75%
Bank Loans.....	1.50%	6.00%
EMD (external).....	1.00%	5.75%
EMD (local currency).....	2.00%	6.50%
TIPS.....	3.00%	3.75%
Core Bonds.....	5.00%	4.00%
Long Treasuries (20+) .....	5.0%	3.75%
Private Equity.....	10.00%	9.50%
Private Debt.....	4.00%	8.00%
Real Estate (Core).....	10.00%	6.50%
Hedge Funds.....	9.00%	6.48%
Timber/Natural Resources.....	4.00%	6.00%
Portfolio Completion.....	4.00%	N/A
	100.00%	

*Rate of return*

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*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 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 pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount (7.50%)</u>	<u>1% Increase (8.50%)</u>
The Town's proportionate share of the net pension liability.....	\$ 24,067,915	\$ 15,585,000	\$ 8,418,514
WCRS total net pension liability.....	\$ 25,413,000	\$ 16,456,000	\$ 8,889,000

**NOTE 11 – RISK FINANCING**

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

The Town is self-insured for workers compensation related to the police and fire departments and has a premium based plan for all other departments. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2017, the amount of the liability of the workers' compensation claims is immaterial and is therefore not reported.

**NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both the 415 active members and the 274 retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. All active and retired members receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC).

*Funding Policy* – Contribution requirements are established through agreements with Town employee unions, and in accordance with overall Town policy. Retirees contribute 10%-35% of the calculated contribution for health insurance and the remainder of the cost is funded by the Town. Retirees contribute 50% of the premiums for life insurance and the remainder of the cost is funded by the Town. For the year ended June 30, 2017, the Town's average contribution rate was 8.60% of covered-employee payroll.

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund to begin pre-funding its OPEB liabilities. During 2017, the town pre-funded future OPEB liabilities totaling approximately \$150,000 by contributing funds to the OPEB Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2017, the balance of this fund totaled \$250,788. The Town has not formally adopted a policy of pre-funding future OPEB liabilities.

The annual money-weighted rate of return on OPEB plan investments was 0.44%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

*Plan Membership* – The following table represents the Plan’s membership at July 1, 2015:

Active members.....	444
Retired members or beneficiaries currently receiving benefits.....	<u>94</u>
Total.....	<u><u>538</u></u>

*Components of OPEB Liability* – The following table represents the components of the Plan’s OPEB liability as of June 30, 2017:

Total OPEB liability.....	\$ 78,519,883
Less: OPEB plan's fiduciary net position.....	<u>(250,788)</u>
Net OPEB liability.....	<u><u>\$ 78,269,095</u></u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	0.32%

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the July 1, 2015 actuarial valuation was determined by using the following actuarial assumptions actuarial, applied to all periods including the measurement date that was updated to June 30, 2017 to be in accordance with GASB #74:

Valuation date.....	Actuarially determined contribution was calculated as of June 30, 2017, by updating the July 1, 2015 actuarial valuation.
Actuarial cost method.....	Entry Age Normal. The costs of each employee's postemployment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages. Previously, Projected Unit Credit.
Asset valuation method.....	Market value of assets as of the reporting date, June 30, 2017.
Amortization method.....	Level dollar amount over thirty years on an open amortization period for partial pre-funding.
Investment rate of return.....	7.5%, net of investment expenses, including inflation.
Discount rate.....	3.58%, compounded annually.
Inflation.....	2.6% per year, based on the 2017 Social Security Trustees Report.
Healthcare cost trend rate.....	8.0% decreasing 0.5% per year to an ultimate rate of 5.0% for 2021.

Pre-Retirement mortality:

General and public safety employees.... RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using scale BB.

Teachers..... RP-2014 Employees Mortality Table, base year 2014, projected with generational mortality improvement using scale BB.

Post-Retirement mortality:

General and public safety employees.... RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB.

Teachers..... RP-2014 Healthy Annuitant Mortality Table, base year 2014, projected with generational mortality improvement using scale BB.

*Investment Policy*

The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the Town’s investment policy.

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 rate of returns (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 rate of return of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan’s expected future real rate of return of is added to the expected inflation rate to produce the long-term expected nominal rate of return of 7.50%. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2017 are summarized in the following table.

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and equivalents.....	<u>100.00%</u>	<u>4.00%</u>

*Discount Rate*

The discount rate used to measure the total OPEB liability was 3.58% which is based on the Bond Buyer 20-Bond GO Index on June 29, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the plan’s funding policy. Based on those assumptions, the OPEB plan’s fiduciary net position to make all projected benefit payments of current plan members. Therefore, a 3.58% municipal bond rate was applied to all periods to determine the total OPEB liability.

*Sensitivity of the other postemployment benefit liability to changes in the discount rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.58%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current rate.

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
Net OPEB liability.....	\$ 94,253,354	\$ 78,269,095	\$ 66,086,075

*Sensitivity of the net other postemployment benefit liability to changes in the healthcare trend* – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate of 8.00% in year 1 decreasing by 0.5% per year until reaching 5.00%, as well as what the net other postemployment benefit liability would be if it were calculated using a healthcare trend rate that is 1-percentagepoint lower or 1-percentage-point higher.

	1% Decrease 7% year 1 Decreasing to <u>4.00%</u>	Current Trend 8% year 1 Decreasing to <u>5.00%</u>	Current Trend 9% year 1 Decreasing to <u>6.00%</u>
Net OPEB liability.....	\$ 63,962,993	\$ 78,269,095	\$ 97,662,481

*Annual OPEB Cost and Net OPEB Obligation* – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 6,531,965
Interest on existing net OPEB obligation.....	880,182
Adjustments to annual required contribution.....	<u>(1,272,675)</u>
Annual OPEB cost (expense).....	6,139,472
Contributions made.....	<u>(2,084,575)</u>
Increase/Decrease in net OPEB obligation.....	4,054,897
Net OPEB obligation - beginning of year.....	<u>22,004,557</u>
Net OPEB obligation - end of year.....	<u><u>\$ 26,059,454</u></u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$ 6,139,472	34%	\$ 26,059,454
6/30/2016	5,673,679	45%	22,004,557
6/30/2015	5,519,589	43%	18,887,389

*Funded Status and Funding Progress* – As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$65.8 million. The actuarial value of assets for the plan was \$50,000. The remaining \$65.7 million was unfunded.

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

*Actuarial Methods and Assumptions* – Projections of 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 the 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.

In the July 1, 2015, actuarial valuation, actuarial liabilities were determined using the entry age normal method. The actuarial assumptions included a 7.5% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an ultimate medical/drug cost trend of 5.0% and included a 2.6% inflation assumption. The UAAL is being amortized over a 30 year period. The remaining amortization period at July 1, 2015, is 30 years.

#### **NOTE 13 – CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2017.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 17, 2018, which is the date the financial statements were available to be issued.

**NOTE 15 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. This pronouncement did not impact the basic financial statements.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.
- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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# ***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 29,988,909	\$ 29,988,909	\$ 29,865,879	\$ -	(123,030)
Tax liens.....	-	-	192,525	-	192,525
Motor vehicle excise taxes.....	1,871,638	1,871,638	2,091,151	-	219,513
Hotel, motel, and meals tax.....	265,000	265,000	293,806	-	28,806
Penalties and interest on taxes.....	220,000	220,000	249,130	-	29,130
Payments in lieu of taxes.....	5,000	5,000	11,273	-	6,273
Licenses and permits.....	638,691	638,691	736,834	-	98,143
Fines and forfeitures.....	85,500	85,500	57,085	-	(28,415)
Intergovernmental.....	12,588,415	12,588,415	12,531,400	-	(57,015)
Departmental and other.....	340,000	340,000	532,502	-	192,502
Investment income.....	90,000	90,000	132,683	-	42,683
<b>TOTAL REVENUES.....</b>	<b>46,093,153</b>	<b>46,093,153</b>	<b>46,694,268</b>	<b>-</b>	<b>601,115</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	2,794,460	2,574,512	2,295,432	66,779	212,301
Public safety.....	6,545,647	6,531,654	6,285,148	8,738	237,768
Education.....	22,936,956	22,960,690	23,113,034	-	(152,344)
Public works.....	2,696,854	2,805,604	2,685,518	99,048	21,038
Human services.....	372,445	472,996	440,538	5,069	27,389
Library.....	565,159	565,159	520,559	869	43,731
Shared expenses.....	876,992	876,992	824,885	-	52,107
Pension benefits.....	2,087,906	2,087,906	2,087,906	-	-
Employee benefits.....	3,993,687	4,068,687	3,873,518	-	195,169
State and county charges.....	677,645	677,645	698,047	-	(20,402)
Capital outlay.....	1,101,476	2,038,430	1,570,068	464,169	4,193
Debt service:					
Principal.....	1,670,000	1,670,000	1,670,000	-	-
Interest.....	1,422,425	1,422,425	1,422,425	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>47,741,652</b>	<b>48,752,700</b>	<b>47,487,078</b>	<b>644,672</b>	<b>620,950</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..</b>	<b>(1,648,499)</b>	<b>(2,659,547)</b>	<b>(792,810)</b>	<b>(644,672)</b>	<b>1,222,065</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Free cash, overlay surplus and other amounts voted.....	-	2,459,790	-	-	(2,459,790)
Use of fund balance to fund prior year carryforwards.....	1,172,205	1,172,205	-	-	(1,172,205)
Transfers in.....	576,294	1,351,470	1,397,490	-	46,020
Transfers out.....	(100,000)	(2,323,918)	(2,323,918)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,648,499</b>	<b>2,659,547</b>	<b>(926,428)</b>	<b>-</b>	<b>(3,585,975)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>-</b>	<b>-</b>	<b>(1,719,238)</b>	<b>(644,672)</b>	<b>(2,363,910)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>4,404,423</b>	<b>4,404,423</b>	<b>4,404,423</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 4,404,423</b>	<b>\$ 4,404,423</b>	<b>\$ 2,685,185</b>	<b>\$ (644,672)</b>	<b>\$ (2,363,910)</b>

See notes to required supplementary information.

# ***Retirement Plan Schedules – Retirement System***

The Pension Plan's Schedule of Changes in Net Pension Liability presents multi-year trend information on the Plan's net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS  
WINTHROP CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
<b>Total pension liability:</b>			
Service cost.....	\$ 1,539,000	\$ 1,897,000	\$ 1,982,000
Interest.....	5,054,000	5,127,000	5,460,000
Changes in benefit terms.....	-	-	-
Differences between expected and actual experience.....	-	(2,295,000)	-
Changes in assumptions.....	-	3,500,000	-
Benefit payments, including refunds of employee contributions.....	<u>(3,825,000)</u>	<u>(3,903,000)</u>	<u>(3,738,000)</u>
Net change in total pension liability.....	2,768,000	4,326,000	3,704,000
Total pension liability, beginning.....	<u>65,585,000</u>	<u>68,353,000</u>	<u>72,679,000</u>
Total pension liability, ending <b>(a)</b> .....	<u>\$ 68,353,000</u>	<u>\$ 72,679,000</u>	<u>\$ 76,383,000</u>
<b>Plan fiduciary net position:</b>			
Employer contributions.....	\$ 3,061,000	\$ 3,120,000	\$ 3,245,000
Employee contributions.....	1,078,000	1,111,000	1,175,000
Employee contributions - transfers from other systems.....	132,000	166,000	46,000
Members' makeup payments and redeposits.....	39,000	50,000	3,000
Retirement benefits - 3(8)c contributions from other systems.....	92,000	112,000	107,000
Net investment income (loss).....	3,827,000	454,000	4,080,000
Administration.....	(94,000)	(103,000)	(127,000)
Member contributions - transfers to other systems.....	(356,000)	(259,000)	(190,000)
Retirement benefits - 3(8)c payments to other systems.....	(224,000)	(283,000)	(261,000)
Retirement benefits and refunds.....	<u>(3,693,000)</u>	<u>(3,732,000)</u>	<u>(3,583,000)</u>
Net increase (decrease) in fiduciary net position.....	3,862,000	636,000	4,495,000
Fiduciary net position at beginning of year.....	<u>50,934,000</u>	<u>54,796,000</u>	<u>55,432,000</u>
Fiduciary net position at end of year <b>(b)</b> .....	<u>\$ 54,796,000</u>	<u>\$ 55,432,000</u>	<u>\$ 59,927,000</u>
<b>Net pension liability - ending (a) - (b)</b> .....	<u>\$ 13,557,000</u>	<u>\$ 17,247,000</u>	<u>\$ 16,456,000</u>
Plan fiduciary net position as a percentage of the total pension liability.....	80.2%	76.3%	78.5%
Covered-employee payroll.....	\$ 10,189,000	\$ 11,695,000	\$ 11,695,000
Net pension liability as a percentage of covered-employee payroll.....	133.1%	147.5%	140.7%

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

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**WINTHROP CONTRIBUTORY RETIREMENT SYSTEM**

	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially determined contribution.....	\$ 3,061,000	\$ 3,120,000	\$ 3,245,000
Contributions in relation to the actuarially determined contribution.....	<u>3,061,000</u>	<u>3,120,000</u>	<u>3,245,000</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 10,189,000	\$ 11,695,000	\$ 11,695,000
Contributions as a percentage of covered- employee payroll.....	30.0%	26.7%	27.7%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURN**  
**WINTHROP CONTRIBUTORY RETIREMENT SYSTEM**

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	December 31, 2014	December 31, 2015	December 31, 2016
Annual money-weighted rate of return, net of investment expense.....	7.57%	0.82%	7.49%

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.

The annual money-weighted rate of return has been calculated by  
the Pension Reserves Investment Management Board (PRIM).

See notes to required supplementary information.

# ***Pension Plan Schedules - Town***

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Town's Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
WINTHROP CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Town's proportion of the net pension liability (asset).....	94.08%	94.29%	94.71%
Town's proportionate share of the net pension liability (asset)..... \$	12,724,601	\$ 16,262,196	\$ 15,585,000
Town's covered employee payroll..... \$	10,189,000	\$ 11,695,000	\$ 11,695,000
Net pension liability as a percentage of covered-employee payroll.....	124.89%	139.05%	133.26%
Plan fiduciary net position as a percentage of the total pension liability.....	80.17%	76.27%	78.46%

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

See notes to required supplementary information.

**SCHEDULE OF TOWN'S CONTRIBUTIONS**  
**WINTHROP CONTRIBUTORY RETIREMENT SYSTEM**

	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially determined contribution.....	\$ 2,844,787	\$ 2,941,848	\$ 3,065,000
Contributions in relation to the actuarially determined contribution.....	<u>2,844,787</u>	<u>2,941,848</u>	<u>3,065,000</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 10,189,000	\$ 11,695,000	\$ 11,695,000
Contributions as a percentage of covered- employee payroll.....	27.92%	25.15%	26.21%

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

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the Town	Town's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2017.....	\$ 41,044,640	\$ 4,186,822	52.73%
2016.....	37,298,768	3,025,262	55.38%
2015.....	29,818,728	2,071,650	61.64%

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

See notes to required supplementary information.

# ***Other Postemployment Benefits Plan Schedules***

## **GASB Statement #74 Schedules**

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

## **GASB Statement #45 Schedules**

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**SCHEDULE OF CHANGES IN THE  
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
<b>Total OPEB Liability</b>	
Service Cost.....	\$ 3,972,892
Interest.....	2,511,486
Changes of benefit terms.....	-
Differences between expected and actual experience.....	-
Changes of assumptions.....	(11,146,618)
Benefit payments.....	(1,934,575)
Net change in total OPEB liability.....	(6,596,815)
Total OPEB liability- beginning.....	85,116,698
Total OPEB liability- ending (a).....	78,519,883
<b>Plan fiduciary net position</b>	
Employer contributions to the trust.....	\$ 1,934,575
Employer contributions to pay benefit payments.....	150,000
Net investment income.....	521
Benefit payments.....	(1,934,575)
Net change in plan fiduciary net position.....	150,521
Plan fiduciary net position- beginning.....	100,267
Plan fiduciary net position- ending (b).....	\$ 250,788
<b>Town's net OPEB liability- ending (a)-(b).....</b>	<b>\$ 78,269,095</b>
Plan fiduciary net position as a percentage of the total OPEB liability.....	0.32%
Covered-employee payroll.....	\$ 23,956,755
Town's net OPEB liability as a percentage of covered-employee payroll.....	326.71%

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

See notes to required supplementary information.

**SCHEDULE OF TOWN CONTRIBUTIONS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
Actuarially determined contribution.....	\$ 6,531,965
Contributions in relation to the actuarially determined contribution.....	(2,059,575)
Contribution deficiency (excess).....	\$ 4,472,390
Covered-employee payroll.....	\$ 23,956,755
Contributions as a percentage of covered- employee payroll.....	8.60%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

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June 30, 2017

Annual money-weighted rate of return, net of investment expense.....	0.44%
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Note: This schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2015	\$ 50,116	\$ 65,750,806	\$ 65,700,690	0.08%	N/A	N/A
7/1/2013	-	62,958,152	62,958,152	0.00%	19,953,356	315.5%
7/1/2010	-	50,004,256	50,004,256	0.00%	N/A	N/A

**Schedule of Employer Contributions**

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2017	\$ 6,531,965	\$ 2,084,575	32%
2016	6,010,571	2,556,511	43%
2015	5,799,917	2,348,352	40%
2014	5,589,589	2,134,857	38%
2013	4,496,321	2,158,236	48%
2012	4,418,412	2,096,751	47%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFITS PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2015
Actuarial cost method.....	Projected Unit Credit.
Amortization method.....	Level dollar amount over 30 years on an open amortization period.
Remaining amortization period.....	30 years at July 1, 2015.
Asset valuation method.....	Market value.

Actuarial Assumptions:

Investment rate of return.....	4 percent, net of OPEB plan investment expense and inflation.
Inflation rate.....	2.6%
Medical/drug cost trend rate.....	8% initial, decreasing 0.5% per year to an ultimate rate of 5%.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	273
Current active members.....	<u>439</u>
Total.....	<u><u>712</u></u>

See notes to required supplementary information.

**NOTE A – BUDGETARY BASIS OF ACCOUNTING**

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Council. The Town Manager presents an annual budget to Town Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Town Council approval at a regular Council meeting.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year’s original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Town Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2017 approved budget authorized \$46.6 million in appropriations and other amounts to be raised, as well as \$1.2 of carryforwards from the prior year. During 2017, the Town Council approved \$3.2 million of supplemental appropriations for a variety of capital purchases, as well as transfers to Town stabilization funds.

The Finance Director’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2017, is presented below:

Net change in fund balance - budgetary basis.....	\$	(1,719,238)
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		1,326,817
<u>Basis of accounting differences:</u>		
Net change in revenue accruals.....		118,951
Increase in revenue due to on-behalf payments.....		4,186,822
Increase in expenditures due to on-behalf payments.....		<u>(4,186,822)</u>
Net change in fund balance - GAAP basis.....	\$	<u><u>(273,470)</u></u>

### 3. Excess of Expenditures over Appropriations

For the year ended June 30, 2018, actual expenditures exceeded appropriations for education, and state and county charges. These over-expenditures are allowable and will be funded in 2017 through real estate taxes and other available funds.

## **NOTE B – PENSION PLAN**

### ***Pension Plan Schedules – Retirement System***

#### Schedule of Changes in the Net Pension Liability and Related Ratios

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

#### Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

#### Schedule of Investment Return

The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money-weighted rate of return calculation are determined monthly.

### ***Pension Plan Schedules – Town of Winthrop***

#### Schedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Changes in Assumptions

The January 1, 2015 actuarial valuation reflects a reduced discount rate of 7.50%, from 7.75% per the prior actuarial valuation. The new actuarial valuation also included changes in the applied mortality tables, and amortization method.

Changes in Plan Provisions

None.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including teachers. Additionally, all active and retired members and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

***The Other Postemployment Benefit Plan***A. The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

### B. Schedule of the Town's Contributions

The Schedule of the Town's Contributions includes the Town's annual required contribution to the Plan, along with the contributions made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

### C. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

### ***The Town***

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0.08%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the 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.

### A. The Schedule of Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the Town's actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

### B. The Schedule of Employer Contributions

The Schedule of Employer Contributions presents multiyear trend information for the Town's required and actual contributions relating to the plan.

### C. Schedule of Actuarial Methods and Assumptions.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

### D. Changes of Assumptions

The discount rate was changed to 3.58% as of June 30, 2017; an increase from the previous discount rate of 2.85%

### E. Changes in Plan Provisions

None.