

**Town of Avon, Massachusetts**  
Independent Auditors' Report on  
Examination of Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2017

**TOWN OF AVON, MASSACHUSETTS**  
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**YEAR ENDED JUNE 30, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Avon, Massachusetts

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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, each major fund and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position 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, the schedules of the Town's proportionate share of net pension liability and the Town's contributions to pension plan, the funding and contribution progress for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Scappini & Pina, P.C.*

Norwell, Massachusetts

December 3, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As the management of the Town of Avon, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

### **Financial Highlights**

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$32.4 million (*total net position*).
- The Town's total net position increased by approximately \$2.8 million, or 8.2%, year to year. The increase in governmental activities was primarily due to favorable expenditures as compared to budget of \$1.9 million in the general fund.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$16.5 million, an increase of approximately \$1.4 million over the prior year. The favorable revenue and expenditure variances discussed above were the cause for this increase. Of the ending fund balance approximately \$11.2 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- The Town's total long-term debt decreased by approximately \$1.3 million during the fiscal year as a result of regular scheduled maturities.

### **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits, and debt service.

The Town does not report any business-type activities.

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

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures,

and changes in fund balances for the General Fund and the Ambulance Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town’s own programs. Fiduciary 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.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

### **Government-wide Financial Analysis**

The following represents the condensed statement of net position:

<b>Net Position</b>		
	<b>Governmental activities</b>	
	June 30, 2017	June 30, 2016
<b><u>Assets</u></b>		
Current and other assets	\$ 21,868,941	\$ 19,697,876
Capital assets, net	41,629,698	42,869,235
<b>Total assets</b>	<b>63,498,639</b>	<b>62,567,111</b>
<b>Deferred outflows of resources</b>	<b>3,754,273</b>	<b>1,340,838</b>
<b><u>Liabilities</u></b>		
Long-term liabilities	33,215,442	27,127,466
Other liabilities	705,479	1,275,328
<b>Total liabilities</b>	<b>33,920,921</b>	<b>28,402,794</b>
<b>Deferred inflows of resources</b>	<b>890,578</b>	<b>1,138,369</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	32,540,799	32,155,242
Restricted	4,957,554	4,766,430
Unrestricted	(5,056,940)	(2,554,886)
<b>Net Position</b>	<b>\$ 32,441,413</b>	<b>\$ 34,366,786</b>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s total net position increased by approximately \$2.8 million or 8.2%, year to year.



By far the largest portion (\$32.5 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, 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 significant portion of the Town's total net position (\$5.0 million) represents resources that are subject to external restrictions on how they may be used.

The deficit balance of approximately \$5.1 million in *unrestricted net position* is in large part a result of the Town recording its net pension liability of approximately \$10.1 million in fiscal year 2015 due to the implementation of GASB Statement 68 as well as the implementation of GASB 74/75 in fiscal year 2017 which resulted in the full accrual of the town's net OPEB liability.

The following represents the condensed statement of changes in net position:

	<b>Governmental activities</b>	
	June 30, 2017	June 30, 2016
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services	\$ 1,410,299	\$ 1,531,758
Operating grants and contributions	4,344,604	3,854,749
Capital grants and contributions	549,385	397,732
General revenues:		
Property taxes	18,994,682	18,796,097
Grants and contributions not restricted to specific programs	1,271,389	1,506,896
Other	1,418,522	1,237,793
<b>Total revenues</b>	<b>27,988,881</b>	<b>27,325,025</b>
<b><u>Expenses</u></b>		
General government	5,961,348	6,713,428
Public safety	3,545,041	4,434,379
Education	11,481,345	10,013,110
Public works	2,816,996	2,380,520
Health and human services	390,637	316,388
Culture and recreation	484,968	544,779
Interest expense	385,708	386,612
<b>Total expenses</b>	<b>25,066,043</b>	<b>24,789,216</b>
Change in net position before transfers	2,922,838	2,535,809
<b>Transfers</b>	<b>(96,791)</b>	<b>(80,171)</b>
Change in net position	2,826,047	2,455,638
Net position, beginning of year	29,615,366	31,911,148
Net position, end of year	<b>\$ 32,441,413</b>	<b>\$ 34,366,786</b>

**Governmental Activities** – During 2017, Town property taxes made up approximately 67.9% of total revenues, down from 68.8% in the prior year. Actual taxes were down approximately \$0.2 million and

consistent with what would be expected under proposition 2 ½. Operating grants and contributions accounted for 15.5% of the town's revenues in 2017 and 14.1% of the town's 2016 revenues. Included in this amount are intergovernmental revenues from the Commonwealth of Massachusetts and contributions for School Department operations.

The Town continues to commit significant resources towards education as 45.8% of total expenditures are related to this critical activity. This is higher than the prior year amount of 40.3%. Public Safety expenses were 14.1% of total expenses, which is lower than the prior year ratio of 17.9%. General government expenses made up 23.8% of expenditures, down from 27.1% in 2016. No other expense types were greater than 10% of total expenses in 2017 or 2016.

### **Financial Analysis of the Government's Funds**

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$16.5 million. This represents an increase of \$1.4 million over the previous year as revenues and expenditures both ended with favorable budget variances. Of the ending fund balance approximately \$11.2 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$11.2 million, while total general fund balance reached approximately \$13.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 48.5% of total general fund expenditures, while total fund balance represents approximately 57.8% of that same amount.

The Town's Ambulance Fund, which is presented as a Major Fund, has a restricted ending fund balance of approximately \$0.8 million, up from approximately \$0.6 million in the prior year.

The Town's aggregate nonmajor funds amount to \$2.3 million and include the Town's Special, Capital and Trust funds.

**Fiduciary Fund** – The Town's fiduciary fund is comprised of the Town's Other Postemployment Benefits Trust Fund, the Maria Marino private purpose trust fund, and agency funds. The agency funds are primarily to record transactions relative to student activity funds.

### **General Fund Budgetary Highlights**

The difference between the original expenditure budget of \$25.6 million and the final expenditure budget of \$24.2 million is due to \$0.6 million of Special Town Meeting appropriations \$2.1 million in encumbrances and articles being carried over into the subsequent fiscal year.

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

**Capital Assets** –The Town’s investment in capital assets for its governmental activities as of June 30, 2017, amounted to approximately \$41.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects a decrease of approximately \$1.3 million, net of depreciation.

The Town has undergone a limited amount of capital improvements over the past several years. These generally included capital replacement of existing building and infrastructure components and modernization of vehicle and equipment assets. Additional information on the Town capital assets can be found in Note II, Section D of this report.

**Long-Term Debt** – At the end of the current fiscal year, the Town had total debt outstanding of approximately \$9.0 million. This entire amount represents general obligation bonds and Title V notes payable of governmental activities. The Town’s total long-term debt had a decrease of approximately \$1.3 million during the fiscal year. This was a result of regular scheduled maturities.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. Debt service from such arrangements is assessed annually to the Town.

Additional information on the Town’s debt can be found in Note II, Sections F and G of this report.

**Capital Lease Obligations** – At the end of the current fiscal year, the Town had capital lease obligations of \$0.1 million in the governmental activities, which relate to fire department.

The Town’s total capital lease obligations had a net decrease of approximately \$0.1 million during the fiscal year. This was a result of minimum lease payments due.

Additional information on the Town’s capital lease obligations can be found in Note II, Section E of this report.

### **Economic Factors and Next Year’s Budgets and Rates**

- The Town’s property tax base is made up predominantly of commercial and industrial taxes, which in 2017 was approximately 68% of the entire levy. The Town also relies to a moderate degree on its residential real estate tax base which comprise the remainder of the levy. This is not anticipated to fluctuate significantly for 2018. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy.
- The Town anticipates state aid for 2018 to remain consistent with the prior year.

The above items were considered when the Town accepted its budget for fiscal year 2018 at the May 2017 Town Meeting, and the Town's tax rate was set in December 2017.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Accountant, Town Hall, 65 East Main Street, Avon, Massachusetts, 02322.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF AVON, MASSACHUSETTS**

Statement of Net Position

June 30, 2017

	Governmental Activities
	<hr/>
<b>Assets</b>	
Cash and cash equivalents	\$ 11,139,493
Investments	6,001,402
Receivables, net of allowance for uncollectibles:	
Property taxes	1,328,504
Departmental and other	2,280,015
Intergovernmental	1,119,527
Capital assets, not being depreciated	7,227,885
Capital assets, net of depreciation	34,401,813
<b>Total Assets</b>	<hr/> <b>63,498,639</b> <hr/>
<b>Deferred Outflows of Resources</b>	<hr/> <b>3,754,273</b> <hr/>
<b>Liabilities</b>	
Current liabilities:	
Warrants and accounts payable	287,739
Provision for refund of paid taxes	226,240
Notes payable	191,500
Noncurrent liabilities:	
Due in one year or less	1,548,168
Due in more than one year	31,667,274
<b>Total Liabilities</b>	<hr/> <b>33,920,921</b> <hr/>
<b>Deferred Inflows of Resources</b>	<hr/> <b>890,578</b> <hr/>
<b>Net Position</b>	
Net investment in capital assets	32,540,799
Restricted	4,957,554
Unrestricted	(5,056,940)
<b>Total Net Position</b>	<hr/> <b>\$ 32,441,413</b> <hr/>

See accompanying notes to basic financial statements.

**TOWN OF AVON, MASSACHUSETTS**

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
General government	\$ 5,961,348	\$ 134,948	\$ 96,941	\$ 549,385	\$ (5,180,074)
Public safety	3,545,041	312,773	71,793	-	(3,160,475)
Education	11,481,345	144,321	3,715,474	-	(7,621,550)
Public works	2,816,996	697,470	450,371	-	(1,669,155)
Health and human services	390,637	52,281	-	-	(338,356)
Culture and recreation	484,968	68,506	10,025	-	(406,437)
Interest expense	385,708	-	-	-	(385,708)
Total Governmental Activities	25,066,043	1,410,299	4,344,604	549,385	(18,761,755)
Total Governmental Activities/ Primary Government	<u>\$ 25,066,043</u>	<u>\$ 1,410,299</u>	<u>\$ 4,344,604</u>	<u>\$ 549,385</u>	<u>(18,761,755)</u>
<u>General Revenues:</u>					
					18,994,682
					1,271,389
					1,086,740
					134,613
					197,169
					<u>(96,791)</u>
					21,587,802
					2,826,047
					34,366,786
					(4,751,420)
					<u>\$ 32,441,413</u>

See accompanying notes to basic financial statements.

**TOWN OF AVON, MASSACHUSETTS**

Governmental Funds

Balance Sheet

June 30, 2017

	General	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 8,161,341	\$ 778,219	\$ 2,199,933	\$ 11,139,493
Investments	5,688,269		313,133	6,001,402
Receivables:				
Property taxes	1,328,504	-	-	1,328,504
Other	285,338	652,653	1,342,024	2,280,015
Due from other government	162,357	-	957,170	1,119,527
<b>Total Assets</b>	<u>15,625,809</u>	<u>1,430,872</u>	<u>4,812,260</u>	<u>21,868,941</u>
<b>Total Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 15,625,809</u></u>	<u><u>\$ 1,430,872</u></u>	<u><u>\$ 4,812,260</u></u>	<u><u>\$ 21,868,941</u></u>
<b>Liabilities</b>				
Warrants and accounts payable	\$ 90,718	\$ -	\$ 6,788	\$ 97,506
Accrued payroll and related liabilities	190,233	-	-	190,233
Provision for refund of paid taxes	226,240	-	-	226,240
Bond anticipation notes payable	-	-	191,500	191,500
<b>Total Liabilities</b>	<u>507,191</u>	<u>-</u>	<u>198,288</u>	<u>705,479</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	1,232,562	-	-	1,232,562
Unavailable revenue - excise taxes	191,176	-	-	191,176
Unavailable revenue - other	256,464	652,653	2,299,194	3,208,311
<b>Total Deferred Inflows of Resources</b>	<u>1,680,202</u>	<u>652,653</u>	<u>2,299,194</u>	<u>4,632,049</u>
<b>Fund Balances</b>				
Restricted	63,780	-	2,368,202	2,431,982
Committed	1,747,353	778,219	-	2,525,572
Assigned	363,635	-	-	363,635
Unassigned	11,263,648	-	(53,424)	11,210,224
<b>Total Fund Balances</b>	<u>13,438,416</u>	<u>778,219</u>	<u>2,314,778</u>	<u>16,531,413</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u><u>\$ 15,625,809</u></u>	<u><u>\$ 1,430,872</u></u>	<u><u>\$ 4,812,260</u></u>	<u><u>\$ 21,868,941</u></u>

See accompanying notes to basic financial statements



**TOWN OF AVON, MASSACHUSETTS**  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017

<b>Total Governmental Fund Balances</b>	<b>\$ 16,531,413</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,629,698
Other long-term assets, deferred outflows, and deferred inflows are not available resources	7,495,744
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(8,984,787)
Capital lease obligations	(104,112)
Compensated absences	(838,997)
Other postemployment benefits	(13,450,552)
Net pension liability	<u>(9,836,994)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 32,441,413</u></b>

See accompanying notes to basic financial statements.

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

	General	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Real estate and personal property taxes, net	\$ 18,898,363	\$ -	\$ -	\$ 18,898,363
Intergovernmental	3,222,030	-	2,206,040	5,428,070
Motor vehicle and other excises	1,086,740	-	-	1,086,740
License and permits	184,487	-	-	184,487
Departmental and other revenue	388,965	-	162,724	551,689
Penalties and interest on taxes	134,613	-	-	134,613
Fines and forfeitures	26,479	-	1,138	27,617
Investment income	194,246	-	2,923	197,169
Contributions and donations	-	-	13,437	13,437
Charges for services	526,942	335,789	221,063	1,083,794
<b>Total Revenues</b>	<b>24,662,865</b>	<b>335,789</b>	<b>2,607,325</b>	<b>27,605,979</b>
<b>Expenditures:</b>				
Current:				
General government	1,782,444	-	769,322	2,551,766
Public safety	3,462,113	-	2,332	3,464,445
Education	9,129,255	-	1,928,818	11,058,073
Public works	2,275,874	-	53,270	2,329,144
Health and human services	273,122	-	114,638	387,760
Culture and recreation	437,984	-	22,163	460,147
Pensions and other fringe benefits	3,877,443	-	-	3,877,443
State and county tax assessments	298,315	-	-	298,315
Debt service:				
Principal payback	1,318,206	-	-	1,318,206
Interest expense	385,508	-	-	385,508
<b>Total Expenditures</b>	<b>23,240,264</b>	<b>-</b>	<b>2,890,543</b>	<b>26,130,807</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,422,601</b>	<b>335,789</b>	<b>(283,218)</b>	<b>1,475,172</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	216,795	-	25,000	241,795
Transfers out	(121,791)	(126,395)	(90,400)	(338,586)
<b>Total Other Financing Sources (Uses)</b>	<b>95,004</b>	<b>(126,395)</b>	<b>(65,400)</b>	<b>(96,791)</b>
<b>Net Change in Fund Balances</b>	<b>1,517,605</b>	<b>209,394</b>	<b>(348,618)</b>	<b>1,378,381</b>
Fund Balances - Beginning	11,046,658	568,825	2,663,396	14,278,879
Prior period restatement	874,153	-	-	874,153
Fund Balances - Ending	<b>\$ 13,438,416</b>	<b>\$ 778,219</b>	<b>\$ 2,314,778</b>	<b>\$ 16,531,413</b>

See accompanying notes to basic financial statements

**TOWN OF AVON, MASSACHUSETTS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**JUNE 30, 2017**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 1,378,381**

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. This amount represents the net amount of depreciation expense in excess of capital outlay. The amounts are represented here as reconciling items:

Capital Outlays	\$ 291,053	
Depreciation Expense	<u>(1,530,590)</u>	
Net effect of reporting capital assets		(1,239,537)

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

Repayments of capital lease obligations	101,881	
Repayments of bonds and notes	<u>1,318,206</u>	
Net effect of reporting long-term debt		1,420,087

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue. 1,258,316

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:

Compensated absences	110,430	
Other postemployment benefits	(460,890)	
Net pension liability	<u>359,260</u>	
Net effect of reporting long-term liabilities		<u>8,800</u>

**Change in Net Position of Governmental Activities** **\$ 2,826,047**

See accompanying notes to basic financial statements.

**TOWN OF AVON, MASSACHUSETTS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2017**

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	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Agency Funds
<b>Assets:</b>			
Cash and cash equivalents	\$ 63,368	\$ -	\$ 123,060
Investments		869,156	-
Receivables	-	-	11,076
	<u>63,368</u>	<u>869,156</u>	<u>134,136</u>
<b>Total Assets</b>	<u>63,368</u>	<u>869,156</u>	<u>134,136</u>
<b>Liabilities:</b>			
Agency payables	-	-	134,136
	<u>-</u>	<u>-</u>	<u>134,136</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>134,136</u>
<b>Net Position:</b>			
Held in trust	63,368	869,156	-
	<u>63,368</u>	<u>869,156</u>	<u>-</u>
<b>Total Net Position</b>	<u><u>\$ 63,368</u></u>	<u><u>\$ 869,156</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

**TOWN OF AVON, MASSACHUSETTS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2017**

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund
<b>ADDITIONS</b>		
Investment income:		
Interest and dividends	\$ 250	\$ 62,632
Net investment earnings	250	62,632
<b>Total Additions</b>	250	62,632
<b>DEDUCTIONS</b>		
Scholarships and awards	5,037	-
<b>Total Deductions</b>	5,037	-
<b>Transfers in</b>		96,791
<b>CHANGE IN NET POSITION</b>	(4,787)	159,423
<b>NET POSITION AT BEGINNING OF YEAR</b>	68,155	709,733
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 63,368</b>	<b>\$ 869,156</b>

See accompanying notes to basic financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**I. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

The Town of Avon, Massachusetts (the “Town”) was incorporated in 1888 and operates under a Town Meeting form of government. The Town is governed by an elected three-member Board of Selectmen. The board members serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, rubbish disposal, public education in grades K-12, water services, street maintenance, and parks and recreational facilities.

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

The Town is a member community of the Blue Hills Regional School District that provides educational services to two area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2017, the Town’s share of the operating and debt service expenses was \$883,308. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District’s administrative office located at 800 Randolph Street Canton MA 02021.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

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

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

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.



The town reports the following major governmental funds:

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

Ambulance Fund – is used to account for the fees generated from the operations of the fire department’s ambulance service that are designated to fund and supplement operating costs of the department.

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

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

*Capital Project Funds* – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The town reports the following fiduciary funds:

Private Purpose Trust Funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town’s government-wide financial statements.

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other postemployment benefits for retirees such as health and life insurance.

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

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

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

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.

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

Real estate taxes and water user fees may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

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

*Capital Assets* – Capital assets, which include land, construction in progress, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, utility mains, and similar items), are reported in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	40 years
Improvements other than buildings	40 years
Machinery and equipment	5-10 years
Vehicles	5-10 years
Infrastructure	40-50 years

*Interfund Balances* – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

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

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

*Compensated Absences* – It is the Town's policy to permit employees to accumulate earned but unused vacation benefits. Amounts related to sick-pay benefits are carried forward from year to year, but only vest as buy-back for certain individuals in the police department. Compensated absence liabilities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, excise, Title V septic betterment loans and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

*Nonexpendable permanent funds* represent the endowment portion of donor restricted trusts that support governmental programs.

*Loans* represent the balance of Title V septic loan paybacks from Town residents restricted for future debt service payback of existing Title V notes payable issued by the Massachusetts Water Pollution Abatement Trust.

*Other purposes* represent assets that are restricted by donors for specific governmental programs and uses.

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

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

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

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

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

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

**Stabilization Funds** – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$2,117,627 at June 30, 2017 and is reported as unassigned fund balance in the General Fund. In addition, the Town maintains an MBTE stabilization fund, a school stabilization fund, and a police/fire stabilization fund, which reported balances of \$3,713,079, \$852,786, and \$1,354,540, respectively as of June 30, 2017.

**Encumbrances** - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

The Town reports \$1,747,353 of encumbrances from Town Meeting votes in the general fund as committed and \$363,635 of encumbrances from normal purchasing activity as assigned at June 30, 2017.

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

	General Fund	Ambulance Fund	Nonmajor Governmental Funds	Total
Restricted:				
General Government	-	-	70,912	70,912
Public Safety	-	-	386,146	386,146
Education	-	-	1,209,761	1,209,761
Public Works	-	-	522,635	522,635
Health and Human Services	-	-	89,921	89,921
Culture and Recreation	-	-	88,827	88,827
Other purposes	63,780	-	-	63,780
Committed:				
General Government	604,069	-	-	604,069
Public Safety	121,463	778,219	-	899,682
Education	28,500	-	-	28,500
Public Works	828,755	-	-	828,755
Health and Human Services	37,500	-	-	37,500
Culture and Recreation	127,066	-	-	127,066
Assigned:				
General Government	379	-	-	379
Public Safety	24,056	-	-	24,056
Education	247,144	-	-	247,144
Public Works	91,805	-	-	91,805
Health and Human Services	251	-	-	251
Unassigned	11,263,648	-	(53,424)	11,210,224
	<u>\$ 13,438,416</u>	<u>\$ 778,219</u>	<u>\$ 2,314,778</u>	<u>\$ 16,531,413</u>

#### **E. Excess of Expenditures Over Appropriations and Deficits**

Expenditures did not exceed appropriations for the legally adopted budget within the General Fund for any functions.

#### **F. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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 fiscal year. Actual results could vary from estimates that were used.

## II. Detailed Notes to All Funds

### A. **Deposits and Investments**

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

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

**Custodial Credit Risk: Deposits** - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$11,325,921 and the bank balance was \$11,939,103. Of the Town's bank balance, \$11,561,158 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was uninsured.

**Custodial Credit Risk: Investments** – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does not have a formal investment policy related to custodial credit risk.

As of June 30, 2017 the Town had the following investments:

	Fair Value	Maturities			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<b>Investment type</b>					
Debt securities:					
U.S. Government obligations	\$ 1,940,227	\$ 230,887	\$ 554,366	\$199,565	\$ 955,409
Corporate bonds	506,466	124,008	382,458		
Certificates of deposit	566,583	109,888	456,695	-	-
Total debt securities	3,013,276	464,783	1,393,519	199,565	955,409
Equity securities:					
Common stock	2,898,577				
Equity mutual funds	867,149				
Total equity securities	3,765,726				
Money market mutual funds	91,556				
Total investments	\$ 6,870,558				

**Interest Rate Risk** – The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer.

Credit Risk – The Town has not adopted a formal policy related to credit risk.

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

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.

The following table presents the Town's investments carried at fair value on a recurring basis at June 30, 2017:

		Fair Value Measurements Using		
	6/30/2017	Level 1	Level 2	Level 3
<b>Investments by fair value level</b>				
Debt securities:				
U.S. Government obligations	\$ 1,940,227	\$1,940,227	\$ -	\$ -
Corporate bonds	506,466	506,466		
Certificates of deposit	566,583	566,583	-	-
Total debt securities	3,013,276	3,013,276	-	-
Equity securities:				
Common stock	2,898,577	2,898,577		
Equity mutual funds	867,149	867,149	-	-
Total equity securities	3,765,726	3,765,726	-	
Total investments by fair value level	6,779,002			
<b>Investments measured at amortized cost</b>				
Money market mutual funds	91,556			
Total investments measured at fair value	\$ 6,870,558			



## B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 1,065,911	\$ -	\$ 1,065,911
Tax liens and foreclosures	262,593	-	262,593
Excise	191,230	-	191,230
Housing rehabilitation loans	821,997	-	821,997
Ambulance	870,204	(217,551)	652,653
Departmental and other	531,404	-	531,404
Title V betterment loans	82,731	-	82,731
Intergovernmental	1,119,527	-	1,119,527
Total	<u>\$ 4,945,597</u>	<u>\$ (217,551)</u>	<u>\$ 4,728,046</u>

## C. Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2017, are summarized as follows:						
	Transfers In					
	General Fund	Ambulance Fund	Nonmajor Funds	OPEB Trust	Total	
Transfers Out						
General Fund	\$ -	\$ -	\$ 25,000	(1) \$ 96,791	\$ 121,791	
Ambulance Fund	126,395	-	-	-	126,395	(2)
Nonmajor Governmental Funds	90,400	-	-	-	90,400	(2)
Total	<u>\$ 216,795</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 96,791</u>	<u>\$ 338,586</u>	
(1) Transfer to sick/vacation fund						
(2) Transfers to general fund to supplement operating budgets						

## D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 6,749,529			\$ 6,749,529
Construction in Process	7,848,497		(7,370,141)	478,356
Total capital assets not being depreciated	<u>14,598,026</u>	<u>-</u>	<u>(7,370,141)</u>	<u>7,227,885</u>
Capital assets being depreciated:				
Buildings and improvements	22,435,789			22,435,789
Improvements other than buildings	319,407			319,407
Infrastructure	23,433,320	7,306,518		30,739,838
Machinery, equipment, and vehicles	5,227,984	354,676	-	5,582,660
Total capital assets being depreciated	<u>51,416,500</u>	<u>7,661,194</u>	<u>-</u>	<u>59,077,694</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,570,525)	(545,480)		(9,116,005)
Improvements other than buildings	(287,262)	(5,360)		(292,622)
Infrastructure	(11,105,824)	(556,360)		(11,662,184)
Machinery, equipment, and vehicles	(3,181,680)	(423,390)	-	(3,605,070)
Total accumulated depreciation	<u>(23,145,291)</u>	<u>(1,530,590)</u>	<u>-</u>	<u>(24,675,881)</u>
Total capital assets being depreciated, net	<u>28,271,209</u>	<u>6,130,604</u>	<u>-</u>	<u>34,401,813</u>
Governmental activities capital assets, net	<u>\$ 42,869,235</u>	<u>\$ 6,130,604</u>	<u>\$ (7,370,141)</u>	<u>\$ 41,629,698</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 8,517
Public safety	257,018
Education	533,702
Public works	703,655
Health and human services	2,877
Culture and recreation	24,821
Total Governmental Activities	<u>\$ 1,530,590</u>

## E. Leases

Assets acquired through capital leases are as follows:

Asset	Amount
Fire Pumper Truck	\$ 499,457
Aerial Ladder Truck	725,000
Less: accumulated depreciation	(755,616)
Total	<u>\$ 468,841</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2017, are as follows:

Fiscal Year Ended June 30,	Amount
2018	104,113
Total minimum lease payments	<u>\$ 104,113</u>

## F. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds. The Town does not have any temporary debt activity to report for fiscal year 2017.

## G. Long-Term Obligations

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

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

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<b>Governmental Activities:</b>					
Bond and note debt	\$ 10,302,993	\$ -	\$ (1,318,206)	\$ 8,984,787	\$ 1,318,206
Capital lease obligations	205,993	-	(101,881)	104,112	104,112
Compensated absences	949,427	-	(110,430)	838,997	125,850
Other postemployment benefits	5,432,937	8,478,505	(460,890)	13,450,552	-
Net pension liability	10,236,116		(399,122)	9,836,994	-
<b>Total Governmental Activities</b>	<b>\$ 27,127,466</b>	<b>\$ 8,478,505</b>	<b>\$ (2,390,529)</b>	<b>\$33,215,442</b>	<b>\$ 1,548,168</b>

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

Description of Issue	Maturity Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u><b>Governmental Activities</b></u>						
General Obligation Bonds	2027	2.00 - 5.00%	\$ 9,565,000	\$ -	\$ (1,200,000)	\$ 8,365,000
MA Water Pollution Abatement Trust Note	2022	0.00 - 1.09%	737,993	-	(118,206)	619,787
<b>Total Governmental Activities</b>			<b>\$ 10,302,993</b>	<b>\$ -</b>	<b>\$ (1,318,206)</b>	<b>\$ 8,984,787</b>

Payments on outstanding bonds and notes due in future years consist of the following:

Year Ending June 30,	<b>Governmental Activities</b>						
	<b>Principal</b>			<b>Interest</b>			<b>Totals</b>
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2017	\$ 1,307,918	\$ (30,718)	\$ 1,277,200	\$ 332,293	\$ (18,041)	\$ 314,252	\$ 1,591,452
2018	1,272,918	(31,357)	1,241,561	284,332	(16,124)	268,208	1,509,769
2019	1,097,631	(34,429)	1,063,202	234,618	(8,369)	226,249	1,289,451
2020	1,047,431	(23,003)	1,024,428	195,686	(5,577)	190,109	1,214,537
2021	1,031,943	(21,425)	1,010,518	156,686	(5,577)	151,109	1,161,627
2022-2026	3,061,943	(21,425)	3,040,518	274,664	(6,869)	267,795	3,308,313
2027-2030	165,000	-	165,000	3,341	-	3,341	168,341
<b>Total</b>	<b>\$ 8,984,784</b>	<b>\$ (162,357)</b>	<b>\$ 8,822,427</b>	<b>\$ 1,481,620</b>	<b>\$ (60,557)</b>	<b>\$ 1,421,063</b>	<b>\$ 10,243,490</b>

The following represents authorized and unissued debt as of June 30, 2017:

<u>Project</u>	<u>Amount</u>
<i>Governmental Activities:</i>	
Butler Elementary Roof	\$ 245,574
Brentwood Public Works	8,100,000

### III. Other Information

#### A. Retirement System

System Description – The Town contributes to the Norfolk County Retirement System (the “System”), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (“MGL”) and is administered by Norfolk County Retirement Board (the “Board”).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. Standalone financial statements for the year ended December 31, 2016 were issued and may be obtained by writing to the Norfolk County Retirement System, 480 Neponset Street, Building 15, Canton, MA 02021.

Benefit Terms – The Retirement System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

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

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

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

The Town contributed \$1,047,572 to the Retirement System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$9,836,994 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 1.799% at December 31, 2015, which was consistent with the proportion measured at January 1, 2016.

Pension Expense – The Town recognized \$985,833 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 154,228	\$ -
Net differences between projected and actual investment earnings	898,956	-
Changes in proportion differences	-	-
Changes of assumptions	-	641,483
Differences between expected and actual experience	-	-
Changes in proportion and differences	-	249,095
Changes of assumptions	-	-
	<u>\$ 1,053,184</u>	<u>\$ 890,578</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Actuarial cost method:	Individual entry age normal
Amortization method:	5% increasing appropriation through fiscal year 2019; 2.3% increasing of unfunded actuarial liability

Remaining amortization period:	14 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	8.0%
Projected salary increases:	3.5 – 5.5%
Cost of living adjustments:	3% on the first \$15,000 of benefits
Mortality rates:	Pre-retirement and post-retirement rates reflect the RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational.
Disabled life mortality:	For disabled retirees, the RP-2000 Mortality Table is set forward 6 years for group 1 and 2 members and set forward 2 years for group 4 members

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 December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	32.0%	8.6%
International Equity	17.5%	8.6%
Fixed income	19.0%	4.5%
Real estate	9.0%	5.1%
Private equity	8.5%	10.3%
Hedge fund	9.0%	13.1%
Real assets	5.0%	7.5%

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

Sensitivity Analysis – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.00% as well as the Town's proportionate share of

the net pension liability using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Discount <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Town's proportionate share of the net pension liability	\$12,446,260	\$9,836,979	\$ 7,600,283

## B. Massachusetts Teachers' Retirement System

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

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

For the year ended June 30, 2017, the Commonwealth contributed \$946,433 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.084159%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

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

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 18,816,121	\$ (18,816,121)	\$ —
Pension expense	1,919,368	(1,919,368)	—

The Town has recognized intergovernmental revenue and pension expense of \$1,919,368 associated with this arrangement.

## C. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial

insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town participates in the Massachusetts Interlocal Insurance Association, a municipal joint purchase group formed pursuant to Massachusetts General Law Chapter 32B to provide employee insurance benefits. Employees and the Town both contribute to the Association on a 75% (Town) 25% (Employee) basis. The Town budgets annually in the General Fund for its estimated share of contributions.

#### **D. Other Postemployment Benefits (OPEB)**

*Plan Description* – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Description of the Retiree Medical Insurance Program:

- a. Plan Type: Comprehensive Medical Insurance through Blue Cross Blue Shield of Massachusetts
- b. Administrator: Town of Avon
- c. Eligibility: An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service.
- d. Cost Sharing: Retirees will pay 25% of premiums for HMO Plans, 50% of premiums for all other Medical Plans

Description of the Retiree Life Insurance Program:

- a. Plan Type: Group Term Life Insurance - \$2,000
- b. Administrator: Town of Avon
- c. Eligibility: Same as above.
- d. Cost Sharing: Employees will pay 50% of premiums in retirement

*Funding Policy* - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 25-50% of the calculated contribution and the remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

For fiscal year 2017, total Town premiums plus implicit costs for the retiree medical program were \$695,551. The Town also made a contribution to the OPEB Trust of \$96,791 for the 2017 fiscal year for a total contribution of \$792,342.



### Investment Policy

The long-term rate of return on assets is developed based on the Town's Investment Policy.

Investment Target Allocation & Expected Long-Term Rate of Return			
			Long-Term
	Target		Expected Real
Asset Class	Allocation	Asset Class	Rate of Return
Domestic Equity - Large Cap	20.00%	Domestic Equity - Large Cap	4.00%
Domestic Equity - Small/Mid Cap	10.00%	Domestic Equity - Small/Mid Cap	6.00%
International Equity - Developed Market	10.00%	International Equity - Developed Market	4.50%
International Equity - Emerging Market	5.00%	International Equity - Emerging Market	7.00%
Domestic Fixed Income	25.00%	Domestic Fixed Income	2.00%
International Fixed Income	10.00%	International Fixed Income	3.00%
Alternatives	20.00%	Alternatives	6.50%
Real Estate	0.00%	Real Estate	6.25%
Cash	0.00%	Cash	0.00%
Total	100.00%		
		I. Real Rate of Return	4.30%
		II. Inflation Assumption	2.75%
		III. Total Nominal Return	7.05%
		IV. Investment Expense	0.25%
		V. Net Investment Return	6.80%

### Actuarially Determined Contribution (ADC)

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

Actuarially Determined Contribution - Deficiency/(Excess)	
<b>For the Fiscal Year Ending June 30, 2017</b>	
I. Service Cost	\$ 392,206
II. 30 year amortization of NOL at 6.50%	967,144
III. Actuarial Determined Contribution	1,359,350
IV. Contributions in relation to the actuarially determined contribution	(792,342)
V. Contribution deficiency/(excess)	\$ 567,008
Covered employee payroll	11,174,445
Contributions as a % of covered employee payroll	7.09%

### Funded Status and Funding Progress

As of the June 30, 2016 Measurement Date, the plan was 5.01% funded. The Total OPEB Liability (TOL) for benefits was \$14,160,285, and the Fiduciary Net Position was \$709,733, resulting in a Net OPEB Liability (NOL) of \$13,450,552. The covered payroll (annual payroll of active

employees covered by the plan) was \$ 11,174,445 and the ratio of the NOL to the covered payroll was 120.4%.

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 actuarially determined contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Total OPEB Liabilities for benefits.

*OPEB Liability, OPEB Expense, and Deferred Inflow/Outflow*

	FYE
	6/30/2017
I Total OPEB Liability	14,160,285
II Fiduciary Net Position as of June 20, 2016	709,733
III Net OPEB Liability	13,450,552
IV Service Cost	314,345
V Interest on Net OPEB Liability (Asset), Service Cost, and Benefit Payment	681,081
VI Change in Deferred (Inflows)/Outflows from Plan Design Changes	-
VII Change in Deferred (Inflows)/Outflows from Plan Experience	2,653,076
VIII Change in Deferred (Inflows)/Outflows from Changes in Assumptions	-
IX Projected Earnings on OPEB Plan Investments	(19,965)
X Change in Deferred (Inflows)/Outflows from Earnings on Investments	48,013
XI Employer Share of Costs	(611,256)
XII Employer (Payments) Withdrawals to/from OPEB Trust	(79,377)
XIII Total Employer Contributions	(690,633)
XIV Net OPEB Expense	2,985,917
XV Actuarial Determined Contribution (ADC)	1,359,350
XVI Total Expected Contribution	690,633
XVII Percentage of ADC Contributed	51%

*Effect of 1% Change in Healthcare Trend*

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Net OPEB Liability would increase to \$16,899,480 or by 25.6% and the corresponding Service Cost would increase to \$590,266 or by 50.5%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Net OPEB Liability would decrease to \$10,681,087 or by 20.6% and the corresponding Service Cost would decrease to \$248,475 or by 36.6%.

*Effect of 1% Change in Discount Rates*

If the discount rate were 1% higher than what was used in this valuation, the Net OPEB Liability would decrease to \$11,891,470 or by 11.6% and the corresponding Service Cost would decrease to \$301,647 or by 23.1%. If the discount rate were 1% lower than was used in this valuation, the Net OPEB Liability would increase to \$15,173,732 or by 12.8% and the corresponding Service Cost would increase to \$497,337 or by 26.8%.

*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 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.

Actuarial Cost Method: Individual Entry Age Normal

Discount Rate: 6.50% per annum (previously 4.00%)

Healthcare Trend Rates:

Year	Medical	Dental
FY2013	6.0%	5.5%
FY2014	5.0%	5.0%
FY2015	5.0%	5.0%
FY2016	5.0%	5.0%
FY2017	5.0%	5.0%
FY2018	5.0%	5.0%
FY2019	5.0%	5.0%
FY2020+	5.0%	5.0%

General Inflation Assumption: 2.75% per annum

Annual Compensation Increases: 3.00% per annum

Actuarial Value of Assets: Market Value

#### Recognition of OPEB Trust Assets

The State of Massachusetts has passed legislation allowing municipal entities to establish a Trust for Other Postemployment Benefits ("OPEB") under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to pre-fund the liabilities under GASB 75. This legislation was amended effective November 9, 2016 to clarify who may adopt such a Trust and provide guidance on the ongoing operation of such a Trust. The Town of Avon has established an irrevocable trust for the purposes of prefunding liabilities under GASB 74/75.

- E. Commitments and Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2017.

Grant Compliance – The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) through June 30, 2018, 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 the Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

#### **F. Implementation of New GASB Pronouncements**

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

## **Current pronouncements**

The GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This pronouncement did not have a material effect on the Town.

The GASB issued Statement #75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The Town implemented this statement early, as allowed, beginning in fiscal year 2017.

The GASB issued Statement #77, *Tax Abatement Disclosures*, the pronouncement issues guidance regarding disclosures of any tax abatement agreements with parties which the government promises to forgo tax revenues for the promise of specific actions which contribute to economic development or otherwise benefits the government or its citizens. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued Statement #82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73*. The pronouncement addresses certain classification, presentation and other issues raised with previous Statements addressing pension obligations. This pronouncement did not impact the basic financial statements for the Town.

## **Future pronouncements**

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018. The pronouncement issues guidance improving accounting and financial reporting for these agreements which are used by donors to provide resources to two or more beneficiaries, including governments. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is generally required to be implemented in fiscal year 2019. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally

enforceable liability associated with the retirement of a tangible capital asset. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #84, *Fiduciary Activities*, which is generally required to be implemented in fiscal year 2020. The objective for this Statement is to improvement guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #85, *Omnibus 2017*, which is generally required to be implemented in fiscal year 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #86, *Certain Debt Extinguishments*, which is generally required to be implemented in fiscal year 2018. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #87, *Leases*, which is generally required to be implemented in fiscal year 2021. This Statement redefines the manner in which long-term leases are accounted and reported. The Town will evaluate the implementation of the pronouncement as applicable.

#### **IV. Subsequent Events**

Management has evaluated subsequent events through December 3, 2018, which is the date the financial statements were available to be issued.

#### **V. Restatement of Fund Balance and Net Position Previously Reported**

Beginning of year fund balance and net position was restated to reflect a restatement of the Town's provision for refund of paid taxes. The result of the restatement was an increase in beginning fund balance and net position of \$874,153.

The implementation of GASB Statement No. 75 resulted in, among other things, the establishment of the total other postemployment benefit (OPEB) liability in the Statement of Net Position and enhanced disclosures related to the OPEB. As a result, the Town has restated its 2017 beginning net position to reflect the implementation of the Statement. This resulted in a decrease in beginning net position of \$5,625,573.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF AVON, MASSACHUSETTS**  
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS  
YEAR ENDED JUNE 30, 2017

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Town's proportion of the net pension liability (asset)	1.8%	1.8%	1.9%
Town's proportionate share of the net pension liability (asset)	9,836,979	10,236,116	10,088,807
Town's covered-employee payroll			
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.1%	203.1%	316.9%
Plan fiduciary net position as a percentage of the total pension liability	58.6%	58.6%	60.1%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN**

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Actuarially determined contribution	1,047,572	1,048,497	1,092,255
Contributions in relation to the actuarially determined contribution	1,047,572	1,048,497	1,092,255
Contribution deficiency (excess)	-	-	-
Town's covered-employee payroll			
Contributions as a percentage of covered-employee payroll			

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 accompanying independent auditors' report.

**TOWN OF AVON, MASSACHUSETTS**  
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS  
YEAR ENDED JUNE 30, 2017

**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY**  
**MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**  
*(dollar amounts are in thousands)*

	✔ Year Ended June 30, 2017	✔ Year Ended June 30, 2016	✔ Year Ended June 30, 2015
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 2,280,655	\$ 1,021,930	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts

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 accompanying independent auditors' report.



**TOWN OF AVON, MASSACHUSETTS**  
**SCHEDULE OF CHANGES IN THE TOWN'S NET OPEB LIABILITY AND RELATED RATIOS**  
**OTHER POST-EMPLOYMENT BENEFIT PLAN**

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	<u>June 30, 2017</u>
<b>Total OPEB Liability</b>	14,780,598
Service Cost	392,206
Interest	923,658
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(695,551)</u>
Net change in total OPEB liability	620,313
Total OPEB liability - beginning	14,160,285
Total OPEB liability - ending (a)	14,780,598
<b>Plan fiduciary net position</b>	869,156
Employer contributions	792,342
Employer contributions for OPEB payments	
Net investment income	62,632
Benefit payments	(695,551)
Net change in plan fiduciary net position	159,423
Plan fiduciary net position - beginning of year	709,733
Plan fiduciary net position - end of year (b)	869,156
<b>Net OPEB liability - ending (a)-(b)</b>	13,911,442
Plan fiduciary net position as a percentage of the total OPEB liability	5.88%
Covered-employee payroll	11,174,445
Net OPEB liability as a percentage of covered-employee payroll	

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 accompanying independent auditors' report.

**TOWN OF AVON, MASSACHUSETTS**  
**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POST-EMPLOYMENT BENEFIT PLAN**

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<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
June 30, 2017	8.27%

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 accompanying independent auditors' report.

**TOWN OF AVON, MASSACHUSETTS**  
**SCHEDULE OF THE TOWN'S CONTRIBUTIONS AND RELATED RATIOS**  
**OTHER POST-EMPLOYMENT BENEFIT PLAN**

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<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
June 30, 2017	1,359,350	(792,342)	567,008	11,174,445	7.09%

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 accompanying independent auditors' report.

<b>Town of Avon, Massachusetts</b>				
Schedule of Revenues, Expenditures, and Changes in Fund Balance -				
Budgetary Basis - General Fund - Budget and Actual				
For the year ended June 30, 2017				
	<b>Original</b>	<b>Final</b>		<b>Variance with</b>
	<b>Budget</b>	<b>Budget</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues:</b>				
Property taxes	19,337,490	19,504,979	19,005,664	(499,315)
Excise taxes	960,000	960,000	1,086,740	126,740
Licenses and permits	197,000	197,000	184,487	(12,513)
Penalties and interest	90,000	90,000	134,613	44,613
Investment earnings	26,000	26,000	29,113	3,113
Charges for services	559,600	559,600	526,942	(32,658)
Fees and fines	133,400	133,400	26,479	(106,921)
Intergovernmental	2,220,599	2,220,599	2,224,789	4,190
Miscellaneous	108,500	108,500	388,965	280,465
<b>Total revenues</b>	<b>23,632,589</b>	<b>23,800,078</b>	<b>23,607,792</b>	<b>(192,286)</b>
<b>Expenditures:</b>				
General government	7,272,384	6,835,425	5,659,887	1,175,538
Public safety	4,015,920	3,964,158	3,462,113	502,045
Education	8,535,929	8,660,285	8,182,822	477,463
Public works	2,780,822	1,860,261	2,275,874	(415,613)
Human services	483,055	445,304	273,122	172,182
Culture and recreation	570,480	443,414	437,984	5,430
State and county assessments	310,467	310,467	298,315	12,152
Debt service	1,661,457	1,661,457	1,652,906	8,551
<b>Total expenditures</b>	<b>25,630,514</b>	<b>24,180,771</b>	<b>22,243,023</b>	<b>1,937,748</b>
<b>Revenues over (under) expenditures</b>	<b>(1,997,925)</b>	<b>(380,693)</b>	<b>1,364,769</b>	<b>(2,130,034)</b>
<b>Other financing sources (uses):</b>				
Transfers in	216,795	310,552	310,552	-
Transfers out	(57,185)	(528,185)	(215,548)	312,637
<b>Total other financing sources (uses)</b>	<b>159,610</b>	<b>(217,633)</b>	<b>95,004</b>	<b>312,637</b>
<b>Revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(1,838,315)</b>	<b>(598,326)</b>	<b>\$ 1,459,773</b>	<b>\$ (1,817,397)</b>
<b>Other budget items:</b>				
Free cash appropriations	57,185	928,185		
Carryover encumbrances	1,781,130	(329,859)		
Overlay surplus		-		
Funding of prior year deficits	-	-		
<b>Total other budget items</b>	<b>1,838,315</b>	<b>598,326</b>		
<b>Net budget</b>	<b>\$ -</b>	<b>\$ -</b>		
See accompanying independent auditors' report.				
See accompanying notes to required supplementary information.				

## TOWN OF AVON, MASSACHUSETTS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

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#### I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2017, Town Meeting approved approximately \$660,000 in additional appropriations and transfers from the original approved budget.

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

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2017, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 23,607,792
Stabilization investment income	\$ -	\$ 165,133	165,133
State funded teachers' pension	946,433	-	946,433
GAAP differences in property taxes	(107,301)	-	(107,301)
MWPAT debt service subsidy	50,808	-	50,808
Revenues on a GAAP basis	<u>\$ 889,940</u>	<u>\$ 165,133</u>	<u>\$ 24,662,865</u>
Expenditures on a budgetary basis			\$ 22,243,023
State funded teachers' pension	\$ 946,433		946,433
MWPAT debt service subsidy	50,808	-	50,808
Expenditures on a GAAP basis	<u>\$ 997,241</u>	<u>\$ -</u>	<u>\$ 23,240,264</u>

## **II. Pension Plan**

### **A. 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.

### **B. 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.

### **C. 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 a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

### **III. Other Post-Employment Benefits**

Valuation date: Actuarially Determined Contribution was calculated as of June 30, 2016

Actuarial Cost Method: Individual Entry Age Normal

Asset-Valuation Method: Market Value of Assets as of the Measurement Date, June 30, 2016

#### **Actuarial Assumptions**

Investment Rate of Return: 6.80%, net of OPEB plan investment expense, including inflation

Municipal Bond Rate: 2.71% as of June 30, 2016

Single Equivalent Discount Rate: 6.50%, net of OPEB plan investment expense, including inflation

Inflation: 2.75% as of June 30, 2016 and for future periods

Salary Increases: 3.00 annually as of June 30, 2016 and for future periods

Cost of Living Adjustment: Not applicable

Pre-Retirement Mortality: RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females

Post-Retirement Mortality: RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females

Disabled Mortality: RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females

#### **Plan Membership**

At June 30, 2016 OPEB plan membership consisted of 129 inactive employees or beneficiaries currently receiving benefits and 225 active employees.

#### **Changes in Assumptions**

Effective June 30, 2016,

Discount rate is 6.50% previously 4.00%

The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females-previously RP-2000 Mortality Table projected to 2017

The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females-previously RP-2000 Mortality Table projected to 2017

The actuarial cost method is Individual Entry Age Normal