

ROSSELL, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF OAKHAM, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2018

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2018



TOWN OF OAKHAM, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Oakham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Oakham, Massachusetts, (the "Town") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents,

Management's Responsibility for the Financial Statements

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

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 of material misstatement.

An audit includes 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 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, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2018, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli, Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
October 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$5,577,000 nearly \$13.0 million (*total net position*). This represented an increase of over \$1,069,000 from the prior year.
- The Town's net investment in capital assets increased over \$977,000 in fiscal year 2018 due primarily to significant public works projects. In 2018, the Town completed over \$1,025,000 in roadwork projects, which were financed entirely with capital grants from the Commonwealth of Massachusetts in the form of Chapter 90 and MassWorks Infrastructure Grants. As these projects are depreciated over fifteen to twenty years, the effects of these current year capital additions contributed greatly to the overall increase in the Town's net investment in capital assets.
- The Town's greatest long-term liability is its net pension liability, which totaled nearly \$942,000 at June 30, 2018. This liability is an actuarial estimate of the Town's proportionate share of the collective net pension liability of the Worcester Regional Retirement System ("WRRS"). The WRRS is required to be fully funded by June 30, 2040. At December 31, 2017, the WRRS was approximately 46% funded.
- The Town's long-term debt totaled approximately \$451,000 at June 30, 2018 and consisted of a note payable to the USDA of nearly \$381,000 and state house notes payable of \$70,000. The state house notes payable are scheduled to mature in fiscal year 2020. The USDA notes payable are scheduled to mature in 2039 and cannot be refunded or refinanced.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$2,178,000, which was approximately \$99,000 greater than the prior year. Of the ending fund balance, approximately \$855,000 is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- The \$855,000 unassigned fund balance for the general fund represented approximately 23% of total fiscal year 2018 general fund expenditures.
- For most Massachusetts municipalities, the adoption of new accounting standards relative to other postemployment benefits, or OPEB, in fiscal year 2018 resulted in significant deteriorations in their net positions. The Town does not currently offer OPEB to its retirees. As a result, the adoption of this accounting standard did not have an effect on the Town's financial condition.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue. The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional school district, health and human services, culture and recreation, fringe benefits and debt service. The Town does not report any business-type activities in these financial statements.

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:

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

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 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 condensed comparative statements of net position are as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017 (a)</u>
<u>Assets</u>		
Current and other assets	\$ 2,777,444	\$ 2,497,908
Capital assets, net	4,830,159	3,948,622
Total assets	7,607,603	6,446,530
<u>Deferred Outflows of Resources</u>		
Pensions	96,032	183,290
<u>Liabilities</u>		
Long-term liabilities	1,436,575	1,728,048
Other liabilities	419,074	393,735
Total liabilities	1,855,649	2,121,783
<u>Deferred Inflows of Resources</u>	270,867	-
<u>Net Position</u>		
Net investment in capital assets	4,335,545	3,358,050
Restricted	1,031,875	1,289,339
Unrestricted	209,699	(139,352)
Net Position	\$ 5,577,119	\$ 4,508,037

(a) Unaudited

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Each component of the Town's total net position is positive. The Town's total net position increased over \$1,069,000 in fiscal year 2018. This increase was due primarily to roadway projects of over \$1,025,000 being completed in 2018 that were funded through grants from the Commonwealth.

The largest portion (approximately \$4,336,000) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town's total net position (approximately \$1,032,000) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position*, which currently has a positive balance of nearly \$210,000.

The condensed comparative statements of activities are as follows:

	Year Ended	
	<u>June 30, 2018</u>	<u>June 30, 2017 (a)</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 365,373	\$ 408,813
Operating grants and contributions	245,494	142,883
Capital grants and contributions	1,025,077	44,355
General revenues:		
Property taxes	2,942,754	2,771,194
PILOT	147,067	133,502
Excise taxes	306,419	266,182
Intergovernmental	191,665	184,471
Other	82,200	78,241
Total revenues	<u>5,306,049</u>	<u>4,029,641</u>
<u>Expenses</u>		
General government	383,880	358,525
Public safety	706,883	732,128
Education	2,421,186	2,291,640
Public works	600,521	539,199
Health and human services	28,871	28,785
Culture and recreation	73,956	82,672
Debt service	21,670	26,912
Total expenses	<u>4,236,967</u>	<u>4,059,861</u>
Change in net position	1,069,082	(30,220)
Net position, beginning of year	<u>4,508,037</u>	<u>4,538,257</u>
Net position, end of year	<u>\$ 5,577,119</u>	<u>\$ 4,508,037</u>

(a) Unaudited

Governmental Activities – Total revenues in fiscal year 2018 in the Town’s governmental activities increased over \$1,276,000 from the prior fiscal year. The Town’s largest revenue source is property taxes, which represent approximately 55% and 69% of total fiscal year 2018 and 2017 revenues, respectively. Capital grants and contributions represented approximately 19% and 1% of fiscal year 2018 and 2017 revenues, respectively. The effects of the \$1,025,000 in capital grants from the Commonwealth in fiscal year 2018 for roadway projects greatly affected the comparability of these two significant revenue categories. No other revenue source was greater than 10% of total fiscal year 2018 revenues.

Education represents the largest expense category for the Town and is provided through the Quabbin Regional School District. In total, education expenses represented approximately 57% and 56% of total fiscal year 2018 and 2017 expenses. Public safety and public works expenses represented approximately 17% and 14% of total fiscal year 2018 expenses, respectively, and were consistent with the prior fiscal year. No other expense types were greater than 10% of total expenses in fiscal years 2018 or 2017.

Government Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$2,178,000, which was approximately \$99,000 higher than the prior fiscal year. Of the ending fund balance, nearly \$1,109,000 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 \$855,000, while total general fund balance approximated \$1,146,000. 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 at year end represents nearly 22.7% of total fiscal year 2018 general fund expenditures, while total fund balance represents approximately 30.4% of that same amount.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds, capital project funds and trust funds.

Fiduciary Fund – The Town’s fiduciary fund is comprised of agency funds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant. A reconciliation of these differences is found in the required supplementary information.

Capital Asset and Debt Administration

Capital Assets –The Town’s investment in capital assets as of June 30, 2018 totaled approximately \$4,830,000, net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$882,000. This increase was a result of current year capital additions exceeding depreciation expense.

Additional information on the Town capital assets can be found in the notes to the financial statements.

Long-term Debt – The Town’s long-term debt consisted of a note payable to the USDA of nearly \$381,000 and state house notes payable of \$70,000 at June 30, 2018. The state house notes payable are scheduled to mature in fiscal year 2020. The USDA notes payable are scheduled to mature in 2039 and cannot be refunded or refinanced. The Town’s total general obligation notes payable debt decreased by over \$53,000 in fiscal year 2018 to approximately \$451,000.

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 the notes to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2018 are approximately 93% of the entire property tax levy. 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’s tax levy. The Town typically taxes at or near its levy limit annually.
- Net state aid in 2019 is expected to be approximately \$275,000 versus \$269,000 in 2018.
- Pension appropriations from the WRRS are expected to increase as much as 10% each year for the next several years.
- The Town’s median household income is significantly higher than the statewide and national averages and its unemployment rate is lower than these averages.

The above items were considered when the Town accepted its budget for fiscal year 2019 at the June 2018 Town Meeting. The Town expects to set its tax rate for fiscal year 2019 in December 2018.

Requests for Information

This financial report is designed to provide a general overview of the Town’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Board of Selectmen, Town Hall, 2 Coldbrook Road, Oakham, Massachusetts 01608.

TOWN OF OAKHAM, MASSACHUSETTS

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

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,275,156
Investments	1,002,448
Receivables, net of allowance for uncollectible accounts:	
Property taxes	76,323
Excise taxes	29,428
Departmental and other	74,992
Intergovernmental	319,097
Capital assets not being depreciated	497,500
Capital assets, net of depreciation	4,332,659
Total Assets	7,607,603
 Deferred Outflows of Resources	
Pensions	96,032
 Liabilities	
Current liabilities:	
Warrants and accounts payable	419,074
Noncurrent liabilities:	
Due in one year or less	97,114
Due in more than one year	1,339,461
Total Liabilities	1,855,649
 Deferred Inflows of Resources	
Pensions	270,867
 Net Position	
Net investment in capital assets	4,335,545
Restricted for:	
Nonexpendable perpetual funds	106,245
Expendable perpetual funds	603,602
Other purposes	322,028
Unrestricted	209,699
Total Net Position	\$ 5,577,119

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					
General government	\$ 383,880	\$ 55,594	\$ 73,206	\$ -	\$ (255,080)
Public safety	706,883	277,406	126,508	-	(302,969)
Education	2,421,186	23,083	5,880	-	(2,392,223)
Public works	600,521	-	-	1,025,077	424,556
Health and human services	28,871	9,280	36,462	-	16,871
Culture and recreation	73,956	10	3,438	-	(70,508)
Interest expense	21,670	-	-	-	(21,670)
Total Primary Government	\$ 4,236,967	\$ 365,373	\$ 245,494	\$ 1,025,077	(2,601,023)

General Revenues

Real and personal property taxes	2,942,754
PLOL	147,067
Grants not restricted for specific purposes	191,665
Motor vehicle and other excise	306,419
Penalties and interest on taxes	26,490
Investment income	55,710
Total general revenues	3,670,105

Change in Net Position

1,069,082

Net Position - Beginning of year

4,508,037

Net Position - End of year

\$ 5,577,119

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 885,521	\$ 389,635	\$ 1,275,156
Investments	362,264	640,184	1,002,448
Receivables, net of allowances:			
Property taxes	76,323	-	76,323
Excise taxes	29,428	-	29,428
Departmental and other	20,012	54,980	74,992
Due from other governments	-	319,097	319,097
Total Assets	<u>1,373,548</u>	<u>1,403,896</u>	<u>2,777,444</u>
Deferred Outflows of Resources			
	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 1,373,548</u>	<u>\$ 1,403,896</u>	<u>\$ 2,777,444</u>
Liabilities			
Warrants and accounts payable	\$ 101,675	\$ 317,399	\$ 419,074
Total Liabilities	<u>101,675</u>	<u>317,399</u>	<u>419,074</u>
Deferred Inflows of Resources			
Unavailable revenues - property taxes	76,323	-	76,323
Unavailable revenues - excise taxes	29,428	-	29,428
Unavailable revenues - departmental and other	20,012	54,980	74,992
Total Deferred Inflows of Resources	<u>125,763</u>	<u>54,980</u>	<u>180,743</u>
Fund Balances			
Nonspendable	-	106,245	106,245
Restricted	-	925,272	925,272
Committed	290,945	-	290,945
Assigned	358	-	358
Unassigned	854,807	-	854,807
Total Fund Balances	<u>1,146,110</u>	<u>1,031,517</u>	<u>2,177,627</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,373,548</u>	<u>\$ 1,403,896</u>	<u>\$ 2,777,444</u>

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Governmental Fund Balances	\$ 2,177,627
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,830,159
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds.	180,743
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and therefore are not reported in the funds:	
Deferred outflows of resources - pensions	96,032
Deferred inflows of resources - pensions	(270,867)
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	(450,625)
Capital lease obligations	(43,989)
Net pension liability	(941,961)
Fund Balances of Governmental Activities	<u>\$ 5,577,119</u>

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Real estate and personal property taxes	\$ 2,936,981	\$ -	\$ 2,936,981
PILOT	147,067	-	147,067
Intergovernmental	291,176	1,164,819	1,455,995
Motor vehicle and other excises	330,073	-	330,073
Departmental and other revenue	21,723	309,796	331,519
License and permits	13,811	-	13,811
Penalties and interest on taxes	26,490	-	26,490
Fines and forfeitures	11,779	-	11,779
Investment income	4,047	51,663	55,710
Contributions and donations	-	6,241	6,241
Total Revenues	<u>3,783,147</u>	<u>1,532,519</u>	<u>5,315,666</u>
Expenditures			
Current:			
General government	302,074	37,876	339,950
Public safety	423,273	339,511	762,784
Education	2,482,905	23,083	2,505,988
Public works	300,882	1,025,086	1,325,968
Health and human services	6,760	21,862	28,622
Culture and recreation	65,415	2,663	68,078
Pensions and other fringe benefits	93,561	-	93,561
State and county tax assessments	16,880	-	16,880
Debt service:			
Principal	53,125	-	53,125
Interest	21,670	-	21,670
Total Expenditures	<u>3,766,545</u>	<u>1,450,081</u>	<u>5,216,626</u>
Excess of Revenues over Expenditures	<u>16,602</u>	<u>82,438</u>	<u>99,040</u>
Other Financing Sources (Uses):			
Transfers in	46,585	-	46,585
Transfers out	-	(46,585)	(46,585)
Total Other Financing Sources (Uses)	<u>46,585</u>	<u>(46,585)</u>	<u>-</u>
Net Change in Fund Balances	63,187	35,853	99,040
Fund Balances - Beginning of year	<u>1,082,923</u>	<u>995,664</u>	<u>2,078,587</u>
Fund Balances - End of year	<u>\$ 1,146,110</u>	<u>\$ 1,031,517</u>	<u>\$ 2,177,627</u>

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances \$ 99,040

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. This amount represents the net amount of depreciation expense in excess of capital outlay.

The amounts are represented here as reconciling items:

Capital outlays	\$ 1,220,312	
Depreciation expense	(338,775)	
Net effect of reporting capital assets		881,537

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 amount presented here as a reconciling item represents repayments on long-term debt in fiscal year

Repayments on capital lease obligations	42,833	
Repayments on long-term debt	53,125	
Net effect of reporting long-term debt		95,958

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred 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.

(9,617)

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

Net pension liability	2,164	
Net effect of reporting long-term liabilities		2,164

Net Change in Fund Balances of Governmental Activities **\$ 1,069,082**

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 36,946
Total Assets	<u>36,946</u>
Liabilities	
Agency liabilities	<u>36,946</u>
Total Liabilities	<u>36,946</u>
Net Position Held in Trust for	
Other purposes	-
Other postemployment benefits	<u>-</u>
Total Net Position	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF OAKHAM, MASSACHUSETTS

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

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located in Worcester County and is a suburb of the City of Worcester. The Town was incorporated in 1762. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen, who oversee the Town's day-to-day operations. Selectmen serve staggered three-year terms.

The Town provides governmental services for the territory within its boundaries, including public safety, education through a regional school district, public works, health and human services, culture and recreation, general governmental services.

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 Quabbin Regional School District, which provides educational services to five 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 2018, the Town's assessment was \$2,083,667. 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 872 South Street, Barre, Massachusetts 01005.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Town does not have any business-type activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. The Town's general fund is the sole major individual government funds and is reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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

- 1) The total assets, liabilities, 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, liabilities, 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.

In addition, 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 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 unmatured interest on general long-term debt which is recognized when due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The government reports the following major Governmental Funds:

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

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:

The 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.

The Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

The 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 use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The Town reports the following fiduciary funds:

Agency Fund – is used to account for assets held in a purely custodial capacity. The Town’s agency funds consist primarily of escrow and other deposits.

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources, as they are needed.

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

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semi-annually with quarterly due dates of August 1, November 1, February 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes up to the statutory interest percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

Capital Assets – Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, software and infrastructure (e.g. roads, sidewalks, water mains, and similar items). 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 \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated by the Town on a straight-line-basis.

The estimated useful lives of capital assets being depreciated are as follows:

Buildings and improvements	20 – 40 years
Vehicles, machinery and equipment	5 – 20 years
Infrastructure	15 – 20 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 – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law.

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities are normally paid from the funds reporting payroll and related expenditures (the general fund in the case of the Town). 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, in addition to issuance costs (if material), 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.

Risk Financing – The Town insures for workers' compensation, health, unemployment benefits, casualty, theft and other losses. Uninsured losses are recorded as expenditures when incurred.

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 reports deferred outflows of resources in its government-wide financial statements relative to pension-related transactions. The Town does not report deferred outflows of resources in its governmental funds financial statements. Deferred pensions will be recognized into pension expense within the next four years.

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 reports deferred inflows of resources in its government-wide financial statements relative to pension-related transactions. The deferred pensions will be recognized as reductions to pension expense within the next four years. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial statements. These amounts will be 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:

Perpetual funds represent both the endowment portion of donor restricted trusts that support governmental programs and the spendable, yet restricted, amount of various trust funds that support governmental programs (i.e., expendable funds).

Other purposes represent revolving funds, gifts and donations and other 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 – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable 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 such as the corpus of an endowment.

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

Committed represents amounts that can only be used for specific purposes pursuant to formal action of the Town’s highest level of decision making authority, which is the Town Meeting action, and can be modified or rescinded on through these actions.

Assigned represents amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

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.

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Perpetual permanent funds	\$ -	\$ 106,245	\$ 106,245
Restricted:			
Expendable trusts	-	603,602	603,602
Federal and state grants	-	173,976	173,976
Revolving funds	-	147,694	147,694
Committed:			
General government	9,210	-	9,210
Education	26,230	-	26,230
Culture and recreation	1,585	-	1,585
Subsequent year expenditures	253,920	-	253,920
Assigned:			
Public safety	358	-	358
Unassigned:			
Unrestricted	399,142	-	399,142
General stabilization	422,968	-	422,968
Other stabilization funds	32,697	-	32,697
	<u>\$ 1,146,110</u>	<u>\$ 1,031,517</u>	<u>\$ 2,177,627</u>

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 three separate stabilization funds. The use of stabilization funds requires the vote of two-thirds of Town Meeting. The fund balances in the Town's stabilization funds are reported as unassigned in the general fund at June 30, 2018.

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 Controller as assigned, and (2) classify encumbrances that result from an action of the Town Council 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 \$358 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

E. Excess of Expenditures Over Appropriations and Deficits

During the year ended June 30, 2018, there were no material expenditures exceeding appropriations. Additionally, there were no material deficits in the Town's nonmajor governmental funds.

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 investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

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

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

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

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

Investments by Fair Value Level	June 30, 2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasuries	\$ 69,963	\$ 69,963	\$ -	\$ -
U.S. Governmental agency obligations	166,697	-	166,697	-
Corporate bonds	168,694	-	168,694	-
Total debt securities	405,354	69,963	335,391	-
Equity securities	66,587	66,587	-	-
Mutual funds	530,508	-	530,508	-
Total investments by fair value level	\$ 1,002,449	\$ 136,550	\$ 865,899	\$ -

The Town's investment in U.S. treasuries and equity securities were classified in Level 1 as these securities are traded in active markets. Investments in U.S. agency obligations, corporate bonds and mutual funds are valued using prices for similar securities in active markets and were classified in Level 2.

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 June 30, 2018, \$905,154 in Town deposits were uninsured by the Federal Depository Insurance Corporation or other forms of collateralization and was therefore unexposed to custodial credit risk.

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. All of the Town's investments are registered in its name and cannot be pledged or assigned. The Town is not exposed to custodial credit risk on its investments. The Town does not have a formal investment policy related to custodial credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the market value of an investment. The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Town mitigates interest rate risk by managing the duration of its investments.

Concentration of Credit Risk – The Town does not have a formal investment policy. The Town's \$58,677 investment in the Federated Strategic Value Dividend Institutional Fund represented nearly 5.9% of the Town's total investment value at June 30, 2018. No other individual investments represented more than 5% of the Town's total investments at June 30, 2018.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investment policy seeks to mitigate this risk using a capital preservation strategy. In practice, the Town seeks to purchase investment grade securities with a high concentration of securities rated A or above as determined by credit rating agencies.

Of the Town's investments in corporate fixed income, \$25,065 was rated by Moody's Investors Service ("Moody's") as A2; \$59,101 was rated A3; \$26,787 was rated Baa1; and \$57,741 was rated Baa2. All of the Town's investments in U.S. government obligations were rated Aaa by Moody's.

Investment Maturities – At June 30, 2018, the Town had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)		
		Less Than 1	1 to 5	6 to 10
U.S. government obligations	\$ 236,660	\$ 69,963	\$ 166,697	\$ -
Corporate fixed income securities	168,694	-	168,694	-
Total investments with maturities	405,354	\$ 69,963	\$ 335,391	\$ -
<u>Other Investments:</u>				
Equities	66,587			
Mutual funds	530,508			
Total Town investments	\$ 1,002,449			

B. Receivables

Receivables as of June 30, 2018 for the Town's major governmental funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate taxes	\$ 60,138	\$ -	\$ 60,138
Personal property taxes	12,618	-	12,618
Tax liens	3,567	-	3,567
Motor vehicle excise taxes	29,428	-	29,428
Ambulance	104,080	(49,100)	54,980
Title V loan receivables	20,012	-	20,012
Intergovernmental	319,097	-	319,097
Total	\$ 548,940	\$ (49,100)	\$ 499,840

Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following table identifies the components of unavailable revenues in the governmental funds:

	General Fund	Nonmajor Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 72,756	\$ -	\$ 72,756
Tax liens	3,567	-	3,567
Motor vehicle excise taxes	29,428	-	29,428
Departmental and other	<u>20,012</u>	<u>54,980</u>	<u>74,992</u>
Total	<u>\$ 125,763</u>	<u>\$ 54,980</u>	<u>\$ 180,743</u>

C. Interfund Receivables, Payables and Transfers

During fiscal year 2018, the Town transferred \$45,000 and \$1,585 from its ambulance and cemetery receipts reserved for appropriation funds, respectively, to its general fund.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 497,500	\$ -	\$ -	\$ 497,500
Capital assets being depreciated:				
Buildings and improvements	3,411,921	94,620	-	3,506,541
Infrastructure	2,934,272	1,025,086	-	3,959,358
Machinery and equipment	277,269	100,606	(53,662)	324,213
Vehicles	<u>1,490,593</u>	<u>-</u>	<u>-</u>	<u>1,490,593</u>
Total capital assets being depreciated	<u>8,114,055</u>	<u>1,220,312</u>	<u>(53,662)</u>	<u>9,280,705</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,484,757)	(38,919)	-	(2,523,676)
Infrastructure	(1,005,557)	(214,260)	-	(1,219,817)
Machinery and equipment	(239,489)	(12,977)	53,662	(198,804)
Vehicles	<u>(933,130)</u>	<u>(72,619)</u>	<u>-</u>	<u>(1,005,749)</u>
Total accumulated depreciation	<u>(4,662,933)</u>	<u>(338,775)</u>	<u>53,662</u>	<u>(4,948,046)</u>
Total capital assets being depreciated, net	<u>3,451,122</u>	<u>881,537</u>	<u>-</u>	<u>4,332,659</u>
Total capital assets, net	<u>\$ 3,948,622</u>	<u>\$ 881,537</u>	<u>\$ -</u>	<u>\$ 4,830,159</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$	5,194
Public safety		57,058
Education		11,226
Public works		259,668
Culture and recreation		5,629
	\$	<u>338,775</u>

E. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. The Town did not have any temporary debt activity in fiscal year 2018.

F. Long-term Obligations

The Town issues general obligation bonds and notes payable as well as capital leases to provide funds for the acquisition and construction of major capital facilities. Additionally, the Town incurs various other long-term obligations relative to pension costs.

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation notes payable	\$ 503,750	\$ -	\$ (53,125)	\$ 450,625	\$ 53,125
Capital lease obligation	86,822	-	(42,833)	43,989	43,989
Net pension liability	1,137,476	382,901	(578,416)	941,961	-
Total	<u>\$ 1,728,048</u>	<u>\$ 382,901</u>	<u>\$ (674,374)</u>	<u>\$ 1,436,575</u>	<u>\$ 97,114</u>

These liabilities will be liquidated by the general fund.

General obligation notes payable outstanding at June 30, 2018 were as follows:

Description of Issue	Interest Rates	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
USDA notes payable	4.75%	\$ 398,750	\$ -	\$ (18,125)	\$ 380,625
State House notes payable	2.60%	105,000	-	(35,000)	70,000
Total		\$ 503,750	\$ -	\$ (53,125)	\$ 450,625

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 53,125	\$ 19,900	\$ 73,025
2020	53,125	18,129	71,254
2021	18,125	16,358	34,483
2022	18,125	15,497	33,622
2023	18,125	14,636	32,761
2024-2028	90,625	60,266	150,891
2029-2033	90,625	38,742	129,367
2034-2038	90,625	17,219	107,844
2039	18,125	861	18,986
Total	\$ 450,625	\$ 201,608	\$ 652,233

At June 30, 2018, no amounts were authorized and unissued for additional borrowings.

State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of five 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, a 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 Town's legal debt margin as of June 30, 2018 was approximately \$9.7 million based on an equalized valuation of nearly \$195 million.

The Town is party to a non-cancellable lease for the purchase of a pumper truck. For financial reporting purposes, this lease is accounted for as a capital lease. The lease concludes in August 2018. The Town will make a \$45,177 in August 2018 to complete its capital lease obligation. Of this total, \$1,188 represents interest. The pumper truck was acquired for \$299,953 and has a net carrying value of \$224,965 at June 30, 2018.

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of MGL. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2017 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-seven employers as of December 31, 2017 was as follows:

Active members	7,601
Inactive members entitled to, but not receiving benefits	1,653
Inactive members (or beneficiaries) currently receiving benefits	<u>3,723</u>
	<u>12,977</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

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

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

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

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

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

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

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

Contributions Requirements – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of MGL, 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 \$58,451 to the Retirement System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 29% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$941,961 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, 2017. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. There were no material changes made in this update to the actuarial assumptions (see below).

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 and proportion was approximately 0.116% and 0.136% at December 31, 2017 and 2016, respectively.

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

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$56,286 in pension expense in the statement of activities in fiscal year 2018.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,266	\$ -
Changes of assumptions	89,766	-
Net difference between projected and actual earnings on pension plan investments	-	29,371
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	241,496
	<u>\$ 96,032</u>	<u>\$ 270,867</u>

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

<u>Year ended June 30,</u>	
2019	\$ (63,636)
2020	(63,365)
2021	(36,379)
2022	<u>(11,455)</u>
	<u>\$ (174,835)</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:

Inflation:	3.0% per year
Amortization method:	Payment increases 4.0% per year, except for early retirement incentive ("ERI") programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing
Salary increases:	Group 1: 4.25-6.00%, based on service Group 4: 4.75-7.00%, based on service
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation

Mortality rates: Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB

Disabled life mortality: For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global equity	40%	4.91%
Fixed income	22%	2.04%
Private equity	11%	6.50%
Real estate	10%	3.70%
Timber and natural resources	4%	3.25%
Hedge funds	13%	3.40%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. 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 in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town's proportionate share of the net pension liability	\$ 1,148,048	\$ 941,961	\$ 767,919

B. Risk Financing

The Town is exposed to various risks of loss related to general liability; 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.

C. Commitments and Contingencies

General – 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, in these situations at June 30, 2018 cannot be determined, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018.

Appellate Tax Board – Generally the Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). At June 30, 2018, there were no pending cases in ATB.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

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 does not believe it has failed to comply with any of these agreements.

IV. Implementation of GASB Pronouncements

A. Current Year Implementations

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB No. 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018. The Town does not currently offer OPEB to its retirees. Accordingly, the adoption of this accounting standard did not have a material effect on the Town's financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

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

B. Future Year Implementations

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

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

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

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

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

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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TOWN OF OAKHAM, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEARS ENDED JUNE 30, 2018**

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

	<u>2017</u>	Years Ended December 31,		<u>2014</u>
		<u>2016</u>	<u>2015</u>	
Town's proportion of the net pension liability (asset)	0.115517%	0.135803%	0.136296%	0.117325%
Town's proportionate share of the net pension liability (asset)	\$ 941,961	\$ 1,137,476	\$ 967,436	\$ 1,055,202
Town's covered-employee payroll	\$ 203,353	\$ 280,270	\$ 268,162	\$ 268,162
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	463.2%	405.9%	360.8%	393.5%
Plan fiduciary net position as a percentage of the total pension liability	46.40%	42.00%	44.52%	48.00%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

	<u>2018</u>	Years Ended June 30,		<u>2015</u>
		<u>2017</u>	<u>2016</u>	
Actuarially determined contribution	\$ 58,451	\$ 65,966	\$ 61,314	\$ 70,077
Contributions in relation to the actuarially determined contribution	<u>58,451</u>	<u>65,966</u>	<u>61,314</u>	<u>70,077</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 203,353	\$ 280,270	\$ 268,162	\$ 268,162
Contributions as a percentage of covered-employee payroll	28.7%	23.5%	22.9%	26.1%

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

See accompanying independent auditor's report.

TOWN OF OAKHAM, MASSACHUSETTS

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

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues:						
Real estate and personal property	\$ 2,937,261	\$ 2,937,261	\$ 2,936,981		\$ 2,936,981	\$ (280)
PILOT	130,000	130,000	147,067		147,067	17,067
Intergovernmental	282,890	282,890	291,176		291,176	8,286
Motor vehicle and other excises	250,000	250,000	330,073		330,073	80,073
Licenses and permits	9,000	9,000	13,811		13,811	4,811
Departmental and other revenue	10,500	10,500	21,723		21,723	11,223
Penalties and interest	29,000	29,000	26,490		26,490	(2,510)
Fines and forfeitures	8,000	8,000	11,779		11,779	3,779
Investment income	-	-	27		27	27
Total Revenues	<u>3,656,651</u>	<u>3,656,651</u>	<u>3,779,127</u>		<u>3,779,127</u>	<u>122,476</u>
Expenditures:						
General government	388,641	388,641	302,074	\$ 9,210	311,284	77,357
Public safety	479,911	479,911	423,273	358	423,631	56,280
Education	2,529,955	2,529,955	2,482,905	26,230	2,509,135	20,820
Public works	309,009	309,009	300,882	1,585	302,467	6,542
Health and human services	23,148	23,148	6,760	-	6,760	16,388
Culture and recreation	67,663	67,663	65,415	-	65,415	2,248
Fringe and pension benefits	114,542	114,542	93,561	-	93,561	20,981
State and county tax assessments	16,880	16,880	16,880	-	16,880	-
Debt service	76,096	76,096	74,795	-	74,795	1,301
Total Expenditures	<u>4,005,845</u>	<u>4,005,845</u>	<u>3,766,545</u>	<u>37,383</u>	<u>3,803,928</u>	<u>201,917</u>
Other Financing Sources (Uses):						
Transfers in	154,085	154,085	154,085		154,085	-
Transfers out	(59,503)	(59,503)	(59,503)		(59,503)	-
Total Other Financing Sources (Uses)	<u>94,582</u>	<u>94,582</u>	<u>94,582</u>		<u>94,582</u>	<u>-</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(254,612)</u>	<u>(254,612)</u>	<u>\$ 107,164</u>		<u>\$ 69,781</u>	<u>\$ 324,393</u>
Other Budgetary Items:						
Prior year encumbrances	29,664	29,664				
Free cash transfers	224,948	224,948				
Total Other Budgetary Items	<u>254,612</u>	<u>254,612</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

TOWN OF OAKHAM, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018**

Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund and each enterprise fund. Financial orders are approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2018, is as follows:

	<u>Basis of Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenues on a budgetary basis			\$ 3,779,127
Stabilization revenue	-	4,020	4,020
Revenues on a GAAP basis	<u>\$ -</u>	<u>\$ 4,020</u>	<u>\$ 3,783,147</u>
Other financing sources (uses) on a budgetary basis			\$ 94,582
Stabilization transfers	-	(47,997)	(47,997)
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ (47,997)</u>	<u>\$ 46,585</u>

Expenditures were the same on both a budgetary-basis and GAAP-basis and therefore no reconciliation is presented above.



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

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

We have audited, 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, the financial statements of the Town of Oakham, Massachusetts (the "Town") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 31, 2018