

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**

**Report on the Examination  
Of Basic Financial Statements**

**For the Year Ended June 30, 2018**

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Report on the Examination of Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>TABLE OF CONTENTS</b> .....	2
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	3-4
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	5-14
<b>BASIC FINANCIAL STATEMENTS</b> .....	15
<b>Government-Wide Financial Statements</b>	
Statement of Net Position .....	16-17
Statement of Activities .....	18
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	20
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position .....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	22
Statement of Revenues and Expenditures – Budgetary Basis – (Non-GAAP) – Budget and Actual – General Fund .....	23
Reconciliation of Revenues and Expenditures from Budgetary Basis to GAAP Basis .....	24
Statement of Net Position – Proprietary Funds .....	25-26
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	27
Statement of Cash Flows – Proprietary Funds.....	28-29
Statement of Fiduciary Net Position – Fiduciary Funds.....	30
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	31
<b>Notes to the Financial Statements</b> .....	32-77
<b>REQUIRED SUPPLEMENTARY INFORMATION</b> .....	78
Pension Plan Schedules .....	79-80
Other Post Employment Benefit Plan Schedules .....	81-85
<b>SUPPLEMENTARY SCHEDULES</b> .....	86
Schedule of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds .....	87-90
Schedule of Real Estate, Personal Property and Rollback Taxes.....	91
Schedule of Motor Vehicle and Boat Excise Taxes .....	92
Schedule of Tax Liens.....	93
Schedule of Departmental Receivables .....	94

## **Independent Auditor's Report**

To the Honorable Selectboard  
Town of South Hadley, Massachusetts

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hadley, Massachusetts, as of and for the year ended June 30, 2018 (except for the South Hadley Electric Light Department, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements which collectively comprise the Town of South Hadley, Massachusetts' basic financial statements as listed in the table of contents. We did not audit the financial statements of the South Hadley Electric Light Department, which is both a major fund and 57 percent, 66 percent and 74 percent, respectively, of the assets, net position and operating revenues of the business-type activities.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Hadley Electric Light Department, which represent 57 percent, 66 percent and 74 percent, respectively, of the assets, net position and operating revenues of the business-type activities. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the South Hadley Electric Light Department, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hadley, Massachusetts, as of June 30, 2018, (except for the South Hadley Electric Light Department, which is as of and for the year ended December 31, 2017), and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension plan and other post employment benefit plan schedules as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Hadley, Massachusetts' basic financial statements. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the Town of South Hadley, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of South Hadley, Massachusetts' internal control over financial reporting and compliance.

## *Scanlon and Associates, LLC*

Scanlon & Associates, LLC  
South Deerfield, Massachusetts  
May 21, 2019

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

## Management's Discussion and Analysis

As management of the Town of South Hadley, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Town's financial performance.

### Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$35,737,620 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded its liabilities by \$37,783,880, a decrease of \$2,046,260 (5%).
- As required by Government Accounting Standards Board (GASB) Statement No. 75, in fiscal year 2018, the Town recognized increases to the Other Post Employment Benefits (OPEB) obligation payable of \$17,590,557 on the statement of net position from the previous year, see Note 5.
- At the close of the current fiscal year, the Town's governmental funds reported total ending fund balance of \$15,200,531, an increase of \$4,770,424 (46%) in comparison with the prior year.
- The General Fund's total fund balance increased \$979,661 (12%) to \$9,197,466. The ending General fund balance is 19% of revenues and transfers in and 19% of expenditures and transfers out.
- Total liabilities of the Town decreased by \$6,713,354 (6%) to \$101,443,102 during the fiscal year. This net change resulted mainly from decreases in notes payable of \$3,435,400 and in the net pension liability of \$4,970,874; and net increases in the other post employment benefit (OPEB) liability of \$885,157 and in bonds payable of \$711,806.
- The Town had General fund free cash certified by the Department of Revenue in the amount of \$2,659,356. The key factors that attributed to the free cash amount for fiscal year 2018 were unexpended/unencumbered appropriations of \$968,000, excess over budget – State and local receipts of \$1,332,300 and prior year free cash not appropriated of \$504,300.
- The Town's enterprise funds certified free cash is as follows:
  - Municipal golf course fund      \$   89,200.
  - Landfill fund                              \$ 507,444.
  - Sewer Fund                                 \$ 1,303,267.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of South Hadley's basic financial statements. These basic financial statements are comprised of 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 finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The business-type activities include the sewer, landfill, municipal golf course, and electric light activities.

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

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 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 decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of South Hadley adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

**Proprietary funds.** The Town maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer, landfill, municipal golf course, and electric light activities.

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

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

## Financial Highlights

### Statement of Net Position Highlights

	Governmental Activities		
	2018	2017	Change
<b>Assets:</b>			
Current assets	\$ 20,250,635	\$ 19,861,073	\$ 389,562
Capital assets	67,530,160	69,722,261	(2,192,101)
<b>Total assets</b>	<b>87,780,795</b>	<b>89,583,334</b>	<b>(1,802,539)</b>
<b>Total Deferred Outflows of Resources</b>	<b>2,467,916</b>	<b>3,954,367</b>	<b>(1,486,451)</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt)	3,281,205	3,154,912	126,293
Current debt	2,292,000	6,512,400	(4,220,400)
Noncurrent liabilities (excluding debt)	57,095,291	60,704,596	(3,609,305)
Noncurrent debt	22,315,000	19,995,000	2,320,000
<b>Total liabilities</b>	<b>84,983,496</b>	<b>90,366,908</b>	<b>(5,383,412)</b>
<b>Deferred Inflows of Resources</b>	<b>3,979,867</b>	<b>378,022</b>	<b>3,601,845</b>
<b>Net Position:</b>			
Net investment in capital assets	42,960,160	44,567,050	(1,606,890)
Restricted	6,034,006	5,814,992	219,014
Unrestricted	(47,708,818)	(47,589,271)	(119,547)
<b>Total net position</b>	<b>\$ 1,285,348</b>	<b>\$ 2,792,771</b>	<b>\$ (1,507,423)</b>

	Business-Type Activities		
	2018	2017	Change
<b>Assets:</b>			
Current assets	\$ 32,091,146	\$ 32,238,289	\$ (147,143)
Noncurrent assets (excluding capital assets)	536,972	543,081	(6,109)
Capital assets	17,224,688	18,447,570	(1,222,882)
<b>Total assets</b>	<b>49,852,806</b>	<b>51,228,940</b>	<b>(1,376,134)</b>
<b>Total Deferred Outflows of Resources</b>	<b>1,516,888</b>	<b>1,655,473</b>	<b>(138,585)</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt)	1,938,181	1,840,869	97,312
Current debt	705,284	693,194	12,090
Noncurrent liabilities (excluding debt)	8,072,474	8,748,009	(675,535)
Noncurrent debt	5,743,667	6,578,951	(835,284)
<b>Total liabilities</b>	<b>16,459,606</b>	<b>17,861,023</b>	<b>(1,401,417)</b>
<b>Deferred Inflows of Resources</b>	<b>457,816</b>	<b>32,281</b>	<b>425,535</b>
<b>Net Position:</b>			
Net investment in capital assets	10,915,619	11,354,921	(439,302)
Restricted	12,499,178	12,914,105	(414,927)
Unrestricted	11,037,475	10,722,083	315,392
<b>Total net position</b>	<b>\$ 34,452,272</b>	<b>\$ 34,991,109</b>	<b>\$ (538,837)</b>

## Financial Highlights

### Statement of Activities Highlights

	Governmental Activities		
	2018	2017	Change
<b>Program Revenues:</b>			
Charges for services	\$ 1,730,324	\$ 1,921,061	\$ (190,737)
Operating grants and contributions	17,088,923	17,290,009	(201,086)
Capital grants and contributions	723,659	1,115,454	(391,795)
<b>General Revenues:</b>			
Property taxes	27,071,208	26,215,100	856,108
Motor vehicle excise and other taxes	2,374,801	2,111,242	263,559
Meals taxes	183,090	176,071	7,019
Penalties and interest on taxes	159,651	168,753	(9,102)
Nonrestricted grants	2,962,010	2,688,564	273,446
Unrestricted investment income	(10,608)	138,480	(149,088)
Miscellaneous	1,764	610	1,154
<b>Total revenues</b>	<b>52,284,822</b>	<b>51,825,344</b>	<b>459,478</b>
<b>Expenses:</b>			
General government	2,447,986	2,565,975	(117,989)
Public safety	3,440,583	3,406,866	33,717
Public works	2,217,934	2,063,061	154,873
Education	26,063,341	25,388,887	674,454
Health and human services	1,259,964	1,279,258	(19,294)
Culture and recreation	2,065,159	2,031,323	33,836
Employee benefits and insurance	14,214,360	14,802,292	(587,932)
State assessments	2,035,204	2,038,272	(3,068)
Interest	921,007	1,047,462	(126,455)
<b>Total expenses</b>	<b>54,665,538</b>	<b>54,623,396</b>	<b>42,142</b>
<b>Net (expenses) revenues</b>	<b>(2,380,716)</b>	<b>(2,798,052)</b>	<b>417,336</b>
<b>Transfers</b>	<b>873,293</b>	<b>776,623</b>	<b>96,670</b>
<b>Change in net position</b>	<b>(1,507,423)</b>	<b>(2,021,429)</b>	<b>514,006</b>
<b>Net position - beginning of year</b>	<b>2,792,771</b>	<b>4,814,200</b>	<b>(2,021,429)</b>
<b>Net position - end of year</b>	<b>\$ 1,285,348</b>	<b>\$ 2,792,771</b>	<b>\$ (1,507,423)</b>

	<b>Business-Type Activities</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
<b>Program Revenues:</b>			
Charges for services	\$ 17,539,375	\$ 19,076,150	\$ (1,536,775)
Operating grants and contributions	286,692	310,953	(24,261)
Capital grants and contributions	83,486	37,696	45,790
<b>Total revenues</b>	<b>17,909,553</b>	<b>19,424,799</b>	<b>(1,515,246)</b>
<b>Expenses:</b>			
Sewer	1,795,775	1,987,979	(192,204)
Landfill	1,232,698	1,253,381	(20,683)
Municipal Golf Course	1,433,776	1,504,959	(71,183)
Electric Light Department	13,738,212	15,346,407	(1,608,195)
<b>Total expenses</b>	<b>18,200,461</b>	<b>20,092,726</b>	<b>(1,892,265)</b>
<b>Net (expenses) revenues</b>	<b>(290,908)</b>	<b>(667,927)</b>	<b>377,019</b>
<b>Transfers</b>	<b>(247,929)</b>	<b>(314,893)</b>	<b>66,964</b>
<b>Change in net position</b>	<b>(538,837)</b>	<b>(982,820)</b>	<b>443,983</b>
<b>Net position - beginning of year</b>	<b>34,991,109</b>	<b>35,973,929</b>	<b>(982,820)</b>
<b>Net position - end of year</b>	<b>\$ 34,452,272</b>	<b>\$ 34,991,109</b>	<b>\$ (538,837)</b>

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$35,737,620 at the close of fiscal year 2018.

Net position of \$53,875,779 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position \$18,533,184, represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$36,671,343).

At the end of the current fiscal year, the Town is able to report positive balances in two categories of net position and a negative balance in the unrestricted category in the governmental activities and for the government as a whole. The unrestricted governmental activities and government as a whole resulted in a negative balance mainly due to the accrual of the OPEB obligation and net pension liabilities that are required under GASB to be recognized in the Town's financial statements. These liabilities are presented on the statement of net position.

The Town is able to report positive balances in all three categories of net position for the business-type activities.

The governmental activities net position decreased by \$1,507,423 (54%) during the current fiscal year. The key elements of the decrease in net position for fiscal year 2018 are attributed to a net increase in the governmental funds of \$4,770,424; and decreases due to the depreciation expense (normally spread out over the useful life of the asset) for the year of \$3,744,184 exceeding the acquisition of \$1,552,083 in new capital assets, and as a result of recognizing this year's net changes in unavailable revenue of \$1,113,046, in debt of \$1,547,334 and in the OPEB obligation of \$941,726.

There was a decrease of \$538,837 (2%) in net position reported in the business-type activities. Of this, there were increases attributed to the sewer fund of \$45,833 and the municipal golf course fund of \$333,766; and decreases to the landfill fund of \$459,163 and the electric light fund (as of December 31, 2017) of \$459,273.

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$15,200,531, an increase of \$4,770,424 (46%) in comparison with the prior year.

The breakdown of the governmental funds is as follows:

- Nonspendable fund balance – \$80,200 (1%).
- Restricted fund balance – \$5,813,312 (38%).
- Committed fund balance – \$1,156,755 (8).
- Assigned fund balance – \$1,640,839 (11%).
- Unassigned fund balance – \$6,509,425 (42%).

### **Major Governmental Funds**

At the end of the fiscal year, the General Fund reported a total fund balance of \$9,197,466 increasing \$979,661 (12%) from the prior year. Of the \$9,197,466, the unassigned amount is \$7,296,346 (79%), the assigned amount is \$1,640,839 (18%) and the restricted amount is \$260,281 (3%). General fund revenues of \$47,476,814 were \$956,968 (2%) more than the prior fiscal year and expenditures of \$47,271,339 were \$122,043 (.3%) more than the prior year. Other activities in the General Fund are net transfers from other funds of \$774,186.

The main components of the increases in general fund revenues were related to increases in property taxes of \$799,131 (3%), intergovernmental receipts of \$190,048 (2%) and in excise and other taxes of 245,340 (11%); and decreases in licenses, permits and fees of \$183,250 (21%) and in investment income of \$149,088 (108%) from the prior year.

The major changes in general fund expenditures from the prior fiscal year were as follows:

- Decrease in Education expenditures of \$631,137 (3%)
- Increase in Employee benefits and insurance expenditures of \$767,728 (6%).

**Proprietary funds.** The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

#### Major Proprietary Funds

The *Sewer Fund* has accumulated a net position of \$5,783,948 used in the financing and operations of the Town's sewer system and shows an increase of \$45,833 (1%). This was due to operating revenues exceeding operating expenditures by \$584,287, investment income of (\$50,999), intergovernmental receipts of \$10,049, interest expense of \$73,058 and net transfers to the general fund of \$424,446. The operating revenues decreased by \$48,957 (2%) and operating expenses also decreased by \$178,470 (9%) over the prior year.

The *Landfill fund* has accumulated a net position of \$5,309,011 used to account for the landfill and recycling activities. The landfill fund shows a decrease of \$459,163 (8%). This was due to operating expenditures exceeding operating revenues by \$194,087, investment income of (\$133,712) and net transfers to the general fund of \$131,364. The operating revenues decreased by \$32,835 (3%) and operating expenses also decreased by \$20,683 (2%) over the prior year.

The *Municipal Golf Course Fund* has accumulated a net position of \$635,684 used in the financing and operations of the Town's Municipal Golf Course and shows an increase of \$333,766 (111%). This is attributed to operating expenses exceeding operating revenues by \$163,702, other income of \$174,334, interest expense of \$134,383 and net transfers from the general fund of \$457,517 to cover the operations of the municipal golf course. Operating revenues decreased \$10,471 (1%) and operating expenses also decreased by \$60,124 (4%) from the prior year.

The *Electric light fund* (as of December 31, 2017) has accumulated a net position of \$22,723,629 used to account for activities of the Town's electric distribution operations. The electric light net position shows a decrease of \$459,273 (2%) attributed to operating expenditures exceeding operating revenues by \$680,143, investment income of \$251,131, capital contributions of \$83,486, gain on disposal of capital assets of \$35,889 and net transfers to the general fund of \$149,636. Operating revenues decreased \$1,443,166 (10%) and operating expenses also decreased by \$1,373,195 (9%) from the prior year.

#### General Fund Budgetary Highlights

The final general fund budget for fiscal year 2018 was \$44,754,778. This was an increase of \$659,775 (1.5%) from the previous year's budget.

There was an increase between the total original budget and the total final amended budget. The change is attributed to votes from available funds at two special town meetings for various budget operating line items.

General fund expenditures were less than budgeted by \$1,925,390. Of the \$1,925,390 in under budgeted expenditures, \$957,379 has been carried over to fiscal year 2019.

The variance with the final budget was a positive \$2,474,845 consisting of a revenue surplus of \$1,506,834 and an appropriation surplus of \$968,011.

## Capital Asset and Debt Administration

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to \$67,530,160 and \$17,224,688, respectively.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds included the following:

- Foreclosure properties for \$32,206.
- Phone system for \$1,626.
- Town Hall parking lot repaving for \$1,090.
- Town Hall improvements for \$158,492.
- Police vehicle purchases for \$86,976.
- Highway vehicle and equipment purchases for \$342,740.
- Road and sidewalk improvements for \$518,011.
- Schools' equipment purchases for \$72,979.
- Other Schools' improvements for \$203,992.
- Old Firehouse Museum improvements for \$50,074.
- Parks equipment purchase for \$48,771.
- River to Range Trail improvements for \$84,227.
- Canal Park improvements for \$60,984.

Major capital events during the current fiscal year in the business-type funds included the following:

Landfill fund:

- Equipment purchase for \$18,200.

Electric Light fund:

- Infrastructure improvements for approximately \$770,309.

**Debt Administration.** The Town's outstanding governmental debt, as of June 30, 2018, totaled \$23,780,000. The primary debt is school construction debt of \$14,305,000, various building improvements of \$7,460,500, land acquisition of \$280,000, departmental vehicles and equipment of \$819,000 and road and sidewalk improvements for \$915,500.

The Town also has bond anticipation notes outstanding in the amount of \$827,000 as of June 30, 2018, of which \$327,000 for building improvements and \$500,000 for road and sidewalk improvements in the governmental activities.

The business-type funds have a total of \$6,448,951, of which \$3,193,951 is for sewer debt and \$3,255,000 for municipal golf course debt.

Please refer to notes 3D, 3F, and 3G for further discussion of the major capital and debt activity.

### Next Year's Annual Town Meeting

The Town of South Hadley operates under the "Representative Town Meeting" concept where each voter elects a representative to vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2018 do not reflect the fiscal year 2019 Town Meeting action with the exception of the fund balance (free cash) amount used to fund the fiscal year 2019 budget. The Annual Town Meeting on May 9, 2018 authorized a fiscal year 2019 operating and capital budget as follows:

From raise and appropriate		\$	40,830,397
From Wastewater Treatment Plant and Collection System Department Receipts			1,722,575
From Sanitary Landfill Department Receipts	\$	814,840	
From Sanitary Landfill Retained Earnings		<u>200,000</u>	1,014,840
From Municipal Golf Course Receipts	\$	650,000	
From Municipal Golf Course Retained Earnings		<u>64,203</u>	714,203
From Other Available Funds:			
<b>General Fund:</b>			
Unassigned fund balance:			
Free cash			683,460
<b>Non-major Governmental Funds:</b>			
Dog Refund		15,000	
Gifts and Donations		175,949	
Smart Growth Grant		41,275	
State Aid to Library		11,800	
Waterway Improvement Fund		<u>3,500</u>	247,524
			<u>\$ 45,212,999</u>

### Requests for Information

This financial report is designed to provide a general overview of the Town of South Hadley's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, 116 Main Street, South Hadley, Massachusetts.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and Cash Equivalents	\$ 12,222,058	\$ 3,053,893	\$ 15,275,951
Investments	6,110,163	7,913,004	14,023,167
MLDM Reserve Trust	-	11,933,856	11,933,856
Receivables, net of allowance for uncollectibles:			
Property Taxes	447,947	-	447,947
Tax Liens	325,366	-	325,366
Excise Taxes	175,926	-	175,926
User Charges	-	902,972	902,972
Departmental	16,025	-	16,025
Due from Other Governments	953,150	32,797	985,947
Inventory	-	421,951	421,951
Prepaid Expense	-	92,852	92,852
Restricted:			
Customers' deposits	-	388,930	388,930
Depreciation Fund	-	6,254,088	6,254,088
Purchases Power Advances	-	1,096,803	1,096,803
Total current assets	20,250,635	32,091,146	52,341,781
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Due from Other Governments	-	20,998	20,998
Preliminary Survey and Investigation Charges	-	515,974	515,974
Capital Assets, net of accumulated Depreciation			
Nondepreciable	4,173,543	1,477,477	5,651,020
Depreciable	63,356,617	15,747,211	79,103,828
Total noncurrent assets	67,530,160	17,761,660	85,291,820
<b>Total Assets</b>	87,780,795	49,852,806	137,633,601
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss on Refunding	37,000	86,087	123,087
Deferred Outflows Related to Pensions	2,415,398	1,378,206	3,793,604
Deferred Outflows Related to OPEB	15,518	52,595	68,113
<b>Total Deferred Outflows of Resources</b>	\$ 2,467,916	\$ 1,516,888	\$ 3,984,804

The Notes to the Financial Statements are an integral part of this Statement.

(Continued)

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Accounts Payable	837,507	1,294,949	2,132,456
Accrued Payroll	2,066,137	15,679	2,081,816
Payroll Withholdings	149,739	-	149,739
Accrued Interest	100,876	67,841	168,717
Deposits	-	389,030	389,030
Other	54,368	-	54,368
Compensated Absences	72,578	170,682	243,260
Bond Anticipation Notes Payable	827,000	-	827,000
Bonds Payable	1,465,000	705,284	2,170,284
Total current liabilities	<u>5,573,205</u>	<u>2,643,465</u>	<u>8,216,670</u>
<b>NONCURRENT:</b>			
Compensated Absences	597,248	52,759	650,007
Other	-	450,000	450,000
Net OPEB Liability	37,276,849	2,203,129	39,479,978
Net Pension Liability	19,221,194	5,366,586	24,587,780
Bonds Payable	22,315,000	5,743,667	28,058,667
Total noncurrent liabilities	<u>79,410,291</u>	<u>13,816,141</u>	<u>93,226,432</u>
<b>Total Liabilities</b>	<u>84,983,496</u>	<u>16,459,606</u>	<u>101,443,102</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows Related to Pensions	3,979,867	335,343	4,315,210
Deferred Inflows Related to OPEB	-	122,473	122,473
<b>Total Deferred Inflows of Resources</b>	<u>3,979,867</u>	<u>457,816</u>	<u>4,437,683</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	42,960,160	10,915,619	53,875,779
Restricted for:			
Capital Projects	1,296,048	407,636	1,703,684
Federal & State Grants	1,329,626	-	1,329,626
Permanent Funds:			
Expendable	71,097	-	71,097
Nonexpendable	80,200	-	80,200
Other Purposes	3,257,035	12,091,542	15,348,577
Unrestricted	(47,708,818)	11,037,475	(36,671,343)
<b>Total Net Position</b>	<u>\$ 1,285,348</u>	<u>\$ 34,452,272</u>	<u>\$ 35,737,620</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General Government	\$ 2,447,986	\$ 350,272	\$ 284,935	\$ -	\$ (1,812,779)	\$ -	\$ (1,812,779)
Public Safety	3,440,583	515,308	137,191	-	(2,788,084)	-	(2,788,084)
Public Works	2,217,934	12,484	24,479	598,538	(1,582,433)	-	(1,582,433)
Education	26,063,341	517,492	11,472,561	125,121	(13,948,167)	-	(13,948,167)
Health and Human Services	1,259,964	69,918	475,187	-	(714,859)	-	(714,859)
Culture and Recreation	2,065,159	264,850	157,500	-	(1,642,809)	-	(1,642,809)
Employee Benefits and Insurance	14,214,360	-	4,434,804	-	(9,779,556)	-	(9,779,556)
State Assessments	2,035,204	-	-	-	(2,035,204)	-	(2,035,204)
Interest	921,007	-	102,266	-	(818,741)	-	(818,741)
<b>Total Governmental Activities</b>	<b>54,665,538</b>	<b>1,730,324</b>	<b>17,088,923</b>	<b>723,659</b>	<b>(35,122,632)</b>	<b>-</b>	<b>(35,122,632)</b>
<b>Business-Type Activities:</b>							
Sewer	1,795,775	2,307,004	(40,950)	-	-	470,279	470,279
Landfill	1,232,698	1,038,611	(133,712)	-	-	(327,799)	(327,799)
Municipal Golf Course	1,433,776	1,135,691	174,334	-	-	(123,751)	(123,751)
Electric Light	13,738,212	13,058,069	287,020	83,486	-	(309,637)	(309,637)
<b>Total Primary Government</b>	<b>\$ 72,865,999</b>	<b>\$ 19,269,699</b>	<b>\$ 17,375,615</b>	<b>\$ 807,145</b>	<b>(35,122,632)</b>	<b>(290,908)</b>	<b>(35,413,540)</b>
<b>General Revenues:</b>							
Property Taxes					27,071,208	-	27,071,208
Motor vehicle and other excise taxes					2,374,801	-	2,374,801
Meals taxes					183,090	-	183,090
Penalties & Interest on taxes					159,651	-	159,651
Grants & Contributions not restricted to specific programs					2,962,010	-	2,962,010
Unrestricted Investment Income					(10,608)	-	(10,608)
Miscellaneous					1,764	-	1,764
<b>Transfers, net</b>					<b>873,293</b>	<b>(247,929)</b>	<b>625,364</b>
<b>Total General Revenues and Transfers</b>					<b>33,615,209</b>	<b>(247,929)</b>	<b>33,367,280</b>
<b>Change in Net Position</b>					<b>(1,507,423)</b>	<b>(538,837)</b>	<b>(2,046,260)</b>
<b>Net Position:</b>							
Beginning of year (as restated)					2,792,771	34,991,109	37,783,880
End of year					<b>\$ 1,285,348</b>	<b>\$ 34,452,272</b>	<b>\$ 35,737,620</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 7,335,081	\$ 4,886,977	\$ 12,222,058
Investments	4,541,336	1,568,827	6,110,163
Receivables, net of allowance for uncollectibles:			
Property Taxes	447,947	-	447,947
Tax Liens	325,366	-	325,366
Excise Taxes	175,926	-	175,926
Departmental	16,025	-	16,025
Due from Other Governments	357,497	595,653	953,150
<b>Total Assets</b>	<b>\$ 13,199,178</b>	<b>\$ 7,051,457</b>	<b>\$ 20,250,635</b>
<b>Liabilities:</b>			
Warrants and Accounts Payable	\$ 699,094	\$ 138,413	\$ 837,507
Accrued Payroll	2,044,154	21,983	2,066,137
Employee Withholdings	149,739	-	149,739
Other	20,484	-	20,484
Bond Anticipation Notes Payable	-	827,000	827,000
<b>Total Liabilities</b>	<b>2,913,471</b>	<b>987,396</b>	<b>3,900,867</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenue	1,088,241	60,996	1,149,237
<b>Fund Balance:</b>			
Nonspendable	-	80,200	80,200
Restricted	260,281	5,553,031	5,813,312
Committed	-	1,156,755	1,156,755
Assigned	1,640,839	-	1,640,839
Unassigned	7,296,346	(786,921)	6,509,425
<b>Total Fund Balance</b>	<b>9,197,466</b>	<b>6,003,065</b>	<b>15,200,531</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 13,199,178</b>	<b>\$ 7,051,457</b>	<b>\$ 20,250,635</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Property Taxes	\$ 27,037,651	\$ -	\$ 27,037,651
Intergovernmental	12,611,640	4,351,288	16,962,928
Excise and Other Taxes	2,534,418	2,816	2,537,234
Charges for Services	-	1,241,524	1,241,524
Licenses, Permits, Fees	702,111	-	702,111
Interest on Taxes	159,651	-	159,651
Investment Income	(10,608)	(22,834)	(33,442)
Gifts and Donations	-	146,756	146,756
Other	-	18,062	18,062
Intergovernmental - "On-behalf" Payments	4,441,951	-	4,441,951
<b>Total Revenues</b>	<b>47,476,814</b>	<b>5,737,612</b>	<b>53,214,426</b>
<b>Expenditures:</b>			
Current:			
General Government	1,987,534	599,691	2,587,225
Public Safety	2,970,407	482,897	3,453,304
Public Works	1,307,061	906,064	2,213,125
Education	20,734,620	3,493,512	24,228,132
Health and Human Services	908,189	257,045	1,165,234
Culture and Recreation	1,340,948	448,690	1,789,638
Employee Benefits and Insurance	12,634,441	108,984	12,743,425
State Assessments	2,035,204	-	2,035,204
Debt Service:			
Principal	2,422,400	-	2,422,400
Interest	930,535	-	930,535
<b>Total Expenditures</b>	<b>47,271,339</b>	<b>6,296,883</b>	<b>53,568,222</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>205,475</b>	<b>(559,271)</b>	<b>(353,796)</b>
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In	1,597,121	365,418	1,962,539
Operating Transfers Out	(822,935)	(266,311)	(1,089,246)
Bond Premium	-	293,527	293,527
Proceeds from Bonds and Notes	-	3,957,400	3,957,400
<b>Total Other Financing Sources (Uses)</b>	<b>774,186</b>	<b>4,350,034</b>	<b>5,124,220</b>
<b>Net Change in Fund Balances</b>	<b>979,661</b>	<b>3,790,763</b>	<b>4,770,424</b>
<b>Fund Balances, Beginning of Year</b>	<b>8,217,805</b>	<b>2,212,302</b>	<b>10,430,107</b>
<b>Fund Balances, End of Year</b>	<b>\$ 9,197,466</b>	<b>\$ 6,003,065</b>	<b>\$ 15,200,531</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**Total Fund Balances to the Statement of Net Position**  
**For the Year Ended June 30, 2018**

<b>Total Governmental Fund Balances</b>	\$	15,200,531
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		67,530,160
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		1,115,353
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.		(1,548,951)
Long Term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:		
Bonds Payable	\$ (23,780,000)	
Deferred Loss on Refunding	37,000	
Net Other Post Employment Benefits Liability	(37,276,849)	
Net Pension Liability	(19,221,194)	
Compensated Absences	<u>(669,826)</u>	(80,910,869)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in the governmental funds, interest is not reported until due.		<u>(100,876)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>1,285,348</u></u></b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2018**

**Net Change in Fund Balances - Total Governmental Funds** \$ 4,770,424

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

Capital Outlay Purchases	\$ 1,552,083	
Depreciation	<u>(3,744,184)</u>	(2,192,101)

Revenue 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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. (1,113,046)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayment of Debt Principal	2,422,400	
Amortization of Net Loss on Refunding	(12,334)	
Proceeds From Bonds	<u>(3,957,400)</u>	(1,547,334)

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

Net Change in Compensated Absences	23,707	
Net Change in Net Other Post Employment Benefits Liability	(941,726)	
Net Change in Deferred Outflow/(Inflow) of Resources Related to OPEB	15,518	
Net Change in Net Pension Liability	4,546,753	
Net Change in Deferred Outflow/(Inflow) of Resources Related to Pensions	(5,091,480)	
Net Change in Accrued Interest on Long-Term Debt	<u>21,862</u>	(1,425,366)

**Change in Net Position of Governmental Activities** \$ (1,507,423)

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -  
(NON-GAAP) - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Actual Budgetary Basis	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
	Amounts Carried		Final Budget			
	Forward from Prior Year	Original Budget				
<b>Revenues:</b>						
Property Taxes	\$ -	\$ 26,793,913	\$ 26,793,913	\$ 26,968,451	\$ -	\$ 174,538
Intergovernmental	-	12,511,787	12,511,787	12,611,640	-	99,853
Excise and Other Taxes	-	1,729,000	1,729,000	2,534,418	-	805,418
Licenses, Permits, Fees	-	385,000	385,000	702,111	-	317,111
Interest on Taxes	-	75,000	75,000	159,651	-	84,651
Investment Income	-	31,000	31,000	56,263	-	25,263
<b>Total Revenues</b>	-	41,525,700	41,525,700	43,032,534	-	1,506,834
<b>Expenditures:</b>						
Current:						
General Government	151,842	2,250,079	2,573,640	1,987,534	287,383	298,723
Public Safety	75,525	2,985,163	3,063,600	2,970,407	20,072	73,121
Public Works	107,000	1,111,051	1,445,713	1,307,061	120,597	18,055
Education	84,701	20,914,067	20,998,768	20,734,620	261,790	2,358
Health and Human Services	2,304	982,256	998,278	908,189	7,638	82,451
Culture and Recreation	90,904	1,354,792	1,610,735	1,340,948	220,393	49,394
Employee Benefits and Insurance	41,506	8,140,457	8,493,963	8,192,490	39,506	261,967
State Assessments	-	2,168,226	2,168,226	2,035,204	-	133,022
Debt Service:						
Principal	-	2,422,400	2,422,400	2,422,400	-	-
Interest	-	979,455	979,455	930,535	-	48,920
<b>Total Expenditures</b>	553,782	43,307,946	44,754,778	42,829,388	957,379	968,011
<b>Excess of Revenues Over (Under) Expenditures</b>	(553,782)	(1,782,246)	(3,229,078)	203,146	(957,379)	2,474,845
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In	-	1,254,888	1,289,888	1,234,688	-	(55,200)
Operating Transfers Out	-	(335,084)	(1,010,084)	(1,010,502)	-	(418)
<b>Total Other Financing Sources (Uses)</b>	-	919,804	279,804	224,186	-	(55,618)
<b>Net Change in Budgetary Fund Balance</b>	(553,782)	(862,442)	(2,949,274)	\$ 427,332	\$ (957,379)	\$ 2,419,227
<b>Other Budgetary Items:</b>						
Free Cash and Other Reserves	-	862,442	2,395,492			
Prior Year Encumbrances	553,782	-	553,782			
<b>Total Other Budgetary Items</b>	553,782	862,442	2,949,274			
<b>NET BUDGET</b>	\$ -	\$ -	\$ -			

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Reconciliation of Revenues and Expenditures**  
**from Budgetary Basis to GAAP Basis**  
**For the Year Ended June 30, 2018**

	<b>Revenues</b>	<b>Expenditures</b>
<b>Reported on a Budgetary Basis</b>	<b>\$ 43,032,534</b>	<b>\$ 42,829,388</b>
<i>Adjustments:</i>		
Activity for Stabilization Funds Recorded in the General Fund for GAAP Purposes	(66,871)	-
Net Increase in Revenue from Recording Refund Taxes Payable	58,200	-
Recognition of Intergovernmental Revenue - "on behalf payments"	4,441,951	-
Recognition of Expenditures - "on behalf payments"	-	4,441,951
Net Increase in Revenue from Recording 60-Day Receipts	11,000	-
<b>Reported on a GAAP Basis</b>	<b>\$ 47,476,814</b>	<b>\$ 47,271,339</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities Enterprise Funds				Total
	Sewer Fund	Landfill Fund	Municipal Golf Course Fund	Electric Light Fund (as of December 31, 2017)	
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and Cash Equivalents	\$ 396,075	\$ 11,561	\$ 201,936	\$ 2,444,321	\$ 3,053,893
Investments	2,354,267	5,558,737	-	-	7,913,004
MLDM Reserve Trust	-	-	-	11,933,856	11,933,856
User Charges, net of allowance for uncollectibles	199,157	34,605	-	669,210	902,972
Due from Other Governments	32,797	-	-	-	32,797
Inventory	-	-	-	421,951	421,951
Prepaid Expenses	-	-	-	92,852	92,852
Restricted:					
Customers' Deposits	-	-	-	388,930	388,930
Depreciation Fund	-	-	-	6,254,088	6,254,088
Purchases Power Advances	-	-	-	1,096,803	1,096,803
Total current assets	<u>2,982,296</u>	<u>5,604,903</u>	<u>201,936</u>	<u>23,302,011</u>	<u>32,091,146</u>
<b>NONCURRENT:</b>					
Due From Other Governments	20,998	-	-	-	20,998
Preliminary Survey and Investigation Charges	-	-	-	515,974	515,974
Capital Assets, net of accumulated depreciation:					
Nondepreciable	170,171	193,138	715,000	399,168	1,477,477
Depreciable	8,078,505	382,064	3,201,303	4,085,339	15,747,211
Total noncurrent assets	<u>8,269,674</u>	<u>575,202</u>	<u>3,916,303</u>	<u>5,000,481</u>	<u>17,761,660</u>
<b>Total Assets</b>	<u>11,251,970</u>	<u>6,180,105</u>	<u>4,118,239</u>	<u>28,302,492</u>	<u>49,852,806</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Loss on Refunding	-	-	86,087	-	86,087
Deferred Outflows Related to Pensions	115,191	23,170	25,983	1,213,862	1,378,206
Deferred Outflows Related to OPEB	496	232	-	51,867	52,595
<b>Total Deferred Outflows of Resources</b>	<u>\$ 115,687</u>	<u>\$ 23,402</u>	<u>\$ 112,070</u>	<u>\$ 1,265,729</u>	<u>\$ 1,516,888</u>

The Notes to the Financial Statements are an integral part of this Statement.

(Continued)

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities Enterprise Funds				Total
	Sewer Fund	Landfill Fund	Municipal Golf Course Fund	Electric Light Fund (as of December 31, 2017)	
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Accounts Payable	\$ 55,075	\$ 108,813	\$ 41,225	\$ 1,089,836	\$ 1,294,949
Accrued Payroll	7,292	1,729	6,658	-	15,679
Accrued Interest	25,676	-	42,165	-	67,841
Deposits	-	100	-	388,930	389,030
Compensated Absences	2,613	-	-	168,069	170,682
Bonds Payable	435,284	-	270,000	-	705,284
Total current liabilities	525,940	110,642	360,048	1,646,835	2,643,465
<b>NONCURRENT:</b>					
Compensated Absences	-	-	-	52,759	52,759
Other	-	-	-	450,000	450,000
Net OPEB Liability	1,192,639	561,297	-	449,193	2,203,129
Net Pension Liability	916,662	184,380	206,765	4,058,779	5,366,586
Bonds Payable	2,758,667	-	2,985,000	-	5,743,667
Total noncurrent liabilities	4,867,968	745,677	3,191,765	5,010,731	13,816,141
<b>Total Liabilities</b>	<b>5,393,908</b>	<b>856,319</b>	<b>3,551,813</b>	<b>6,657,566</b>	<b>16,459,606</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Inflows Related to Pensions	189,801	38,177	42,812	64,553	335,343
Deferred Inflows Related to OPEB	-	-	-	122,473	122,473
<b>Total Deferred Inflows of Resources</b>	<b>189,801</b>	<b>38,177</b>	<b>42,812</b>	<b>187,026</b>	<b>457,816</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	5,108,520	575,202	747,390	4,484,507	10,915,619
Restricted for Capital	396,075	11,561	-	-	407,636
Restricted for Other Purposes	-	4,740,651	-	7,350,891	12,091,542
Unrestricted	279,353	(18,403)	(111,706)	10,888,231	11,037,475
<b>Total Net Position</b>	<b>\$ 5,783,948</b>	<b>\$ 5,309,011</b>	<b>\$ 635,684</b>	<b>\$ 22,723,629</b>	<b>\$ 34,452,272</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Funds				Total
	Sewer Fund	Landfill Fund	Municipal Golf Course Fund	Electric Light Fund (as of December 31, 2017)	
<b>Operating Revenues:</b>					
Charges for Services	\$ 2,306,492	\$ 1,037,468	\$ 1,135,691	\$ 12,771,871	\$ 17,251,522
Other	512	1,143	-	286,198	287,853
<b>Total Operating Revenues</b>	<b>2,307,004</b>	<b>1,038,611</b>	<b>1,135,691</b>	<b>13,058,069</b>	<b>17,539,375</b>
<b>Operating Expenses:</b>					
Salaries & Wages	413,310	70,916	204,522	-	688,748
Operating Expenses	620,412	1,075,333	910,815	12,686,321	15,292,881
Depreciation	688,995	86,449	184,056	1,051,891	2,011,391
<b>Total Operating Expenses</b>	<b>1,722,717</b>	<b>1,232,698</b>	<b>1,299,393</b>	<b>13,738,212</b>	<b>17,993,020</b>
<b>Operating Income (Loss)</b>	<b>584,287</b>	<b>(194,087)</b>	<b>(163,702)</b>	<b>(680,143)</b>	<b>(453,645)</b>
<b>Non-Operating Revenues (Expenses):</b>					
Investment Income	(50,999)	(133,712)	-	251,131	66,420
Capital Contributions	-	-	-	83,486	83,486
Gain/(Loss) on Disposal of Capital Assets	-	-	-	35,889	35,889
Other	-	-	174,334	-	174,334
Intergovernmental	10,049	-	-	-	10,049
Interest Expense	(73,058)	-	(134,383)	-	(207,441)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(114,008)</b>	<b>(133,712)</b>	<b>39,951</b>	<b>370,506</b>	<b>162,737</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>470,279</b>	<b>(327,799)</b>	<b>(123,751)</b>	<b>(309,637)</b>	<b>(290,908)</b>
<b>Operating Transfers:</b>					
Transfer In	-	-	457,517	-	457,517
Transfers (Out)	(424,446)	(131,364)	-	(149,636)	(705,446)
<b>Total Operating Transfers</b>	<b>(424,446)</b>	<b>(131,364)</b>	<b>457,517</b>	<b>(149,636)</b>	<b>(247,929)</b>
<b>Change in Net Position</b>	<b>45,833</b>	<b>(459,163)</b>	<b>333,766</b>	<b>(459,273)</b>	<b>(538,837)</b>
<b>Net Position at Beginning of Year, (as restated)</b>	<b>5,738,115</b>	<b>5,768,174</b>	<b>301,918</b>	<b>23,182,902</b>	<b>34,991,109</b>
<b>Net Position at End of Year</b>	<b>\$ 5,783,948</b>	<b>\$ 5,309,011</b>	<b>\$ 635,684</b>	<b>\$ 22,723,629</b>	<b>\$ 34,452,272</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Funds				
	Sewer Fund	Landfill Fund	Municipal Golf Course Fund	Electric	Total
				Light Fund (as of December 31, 2017)	
<b>Cash Flows From Operating Activities:</b>					
Receipts from Customers and Users	\$ 2,266,004	\$ 1,020,595	\$ 1,135,691	\$ 12,836,199	\$ 17,258,489
Receipts from Other Revenues	512	1,143	-	-	1,655
Payments for Operations	-	-	-	(11,181,523)	(11,181,523)
Payments to Vendors	(756,910)	(1,126,355)	(925,098)	-	(2,808,363)
Payments to Employees	(411,151)	(70,860)	(207,410)	(1,357,776)	(2,047,197)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>1,098,455</b>	<b>(175,477)</b>	<b>3,183</b>	<b>296,900</b>	<b>1,223,061</b>
<b>Cash Flows from Noncapital Financing Activities:</b>					
Transfers from (to) Other Funds	(424,446)	(131,364)	457,517	(149,636)	(247,929)
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<b>(424,446)</b>	<b>(131,364)</b>	<b>457,517</b>	<b>(149,636)</b>	<b>(247,929)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Proceeds from the Issuance of Refunding Bonds	-	-	3,120,000	-	3,120,000
Other	-	-	174,334	-	174,334
Intergovernmental	41,837	-	-	-	41,837
Acquisition and Construction of Capital Assets	-	(18,200)	-	(770,309)	(788,509)
Capital Contributions	-	-	-	83,486	83,486
Proceeds from Disposition of Capital Assets	-	-	-	35,889	35,889
Principal Payments on Refunding Bonds	-	-	(3,225,000)	-	(3,225,000)
Principal Payments on Bonds	(428,194)	-	(290,000)	-	(718,194)
Interest Expense	(75,905)	-	(141,767)	-	(217,672)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<b>(462,262)</b>	<b>(18,200)</b>	<b>(362,433)</b>	<b>(650,934)</b>	<b>(1,493,829)</b>
<b>Cash Flows from Investing Activities:</b>					
Investment Income	(50,999)	(133,712)	-	251,131	66,420
Sale/(Purchase) of Investments	(160,748)	458,753	-	(5,206,819)	(4,908,814)
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>(211,747)</b>	<b>325,041</b>	<b>-</b>	<b>(4,955,688)</b>	<b>(4,842,394)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>98,267</b>	<b>(5,459,358)</b>	<b>(5,361,091)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>396,075</b>	<b>11,561</b>	<b>103,669</b>	<b>9,437,802</b>	<b>9,949,107</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 396,075</b>	<b>\$ 11,561</b>	<b>\$ 201,936</b>	<b>\$ 3,978,444</b>	<b>\$ 4,588,016</b>

The Notes to the Financial Statements are an integral part of this Statement.

(Continued)

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Funds				Total
	Sewer Fund	Landfill Fund	Municipal Golf Course Fund	Electric Light Fund (as of December 31, 2017)	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</b>					
<b>Operating Income (Loss)</b>	\$ 584,287	\$ (194,087)	\$ (163,702)	\$ (680,143)	\$ (453,645)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation	688,995	86,449	184,056	1,051,891	2,011,391
Deferred (Outflows)/Inflows of Resources Related to Pensions and OPEB	281,042	65,506	60,363	77,908	484,819
Change in Assets and Liabilities:					
Increase (Decrease) in Accounts Payable	25,393	18,336	11,955	234,451	290,135
Increase (Decrease) in Accrued Liabilities	-	-	-	(230,648)	(230,648)
Increase (Decrease) in Accrued Payroll	53	56	(2,888)	-	(2,779)
Increase (Decrease) in Compensated Absences	2,106	-	-	40,585	42,691
Increase (Decrease) in Net OPEB Liability	34,857	22,624	-	(114,050)	(56,569)
Increase (Decrease) in Other Noncurrent Liabilities	-	-	-	(150,000)	(150,000)
Increase (Decrease) in Net Pension Liability	(477,790)	(157,488)	(86,601)	297,758	(424,121)
Increase (Decrease) in Deposits	-	-	-	42,600	42,600
Decrease (Increase) in Preliminary Survey and Investigation Charges	-	-	-	(26,688)	(26,688)
Decrease (Increase) in Prepaid Expenses	-	-	-	(47,513)	(47,513)
Decrease (Increase) in Inventory	-	-	-	(1,829)	(1,829)
Decrease (Increase) in Purchased Power Advances	-	-	-	24,448	24,448
Decrease (Increase) in User Charges Receivable	(40,488)	(16,873)	-	(221,870)	(279,231)
<b>Total Adjustments</b>	514,168	18,610	166,885	977,043	1,676,706
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ 1,098,455</b>	<b>\$ (175,477)</b>	<b>\$ 3,183</b>	<b>\$ 296,900</b>	<b>\$ 1,223,061</b>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2018**

	<b>Other Post Employment Benefits Trust Fund</b>	<b>Other Post Employment Benefits Trust Fund (SHELD) (as of December 31, 2017)</b>	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	278,087
Investments	892,405	765,442	183,497	169,189
<b>Total Assets</b>	<b>892,405</b>	<b>765,442</b>	<b>183,497</b>	<b>447,276</b>
<b>LIABILITIES</b>				
Due to Others	-	-	-	112,092
Due to Student Groups	-	-	-	78,585
Escrows and Deposits	-	-	-	256,599
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>447,276</b>
<b>NET POSITION</b>				
Held in Trust for Other Purposes	\$ 892,405	\$ 765,442	\$ 183,497	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Other Post Employment Benefits Trust Fund</b>	<b>Other Post Employment Benefits Trust Fund (SHELD) (as of December 31, 2017)</b>	<b>Private Purpose Trust Funds</b>
<b>Additions</b>			
Contributions:			
Employer	\$ 1,961,613	\$ 43,243	\$ -
Donations	-	-	2,010
Total Contributions	<u>1,961,613</u>	<u>43,243</u>	<u>2,010</u>
Investment Income	24,100	99,231	(3,605)
<b>Total Additions</b>	<u>1,985,713</u>	<u>142,474</u>	<u>(1,595)</u>
<b>Deductions:</b>			
Educational Scholarships	-	-	8,100
Employee Benefits and Insurance	1,481,613	43,243	-
<b>Total Deductions</b>	<u>1,481,613</u>	<u>43,243</u>	<u>8,100</u>
<b>Change in Net Position</b>	<u>504,100</u>	<u>99,231</u>	<u>(9,695)</u>
<b>Net Position at Beginning of Year</b>	<u>388,305</u>	<u>666,211</u>	<u>193,192</u>
<b>Net Position at End of Year</b>	<u>\$ 892,405</u>	<u>\$ 765,442</u>	<u>\$ 183,497</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The Town was incorporated in 1753 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five-member Selectboard.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete.

Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the proprietary funds.

***The South Hadley Electric Light Department (SHELD)*** - The condensed financial statements of the South Hadley Electric Light Department (SHELD) (Electric Light Department) are included in the Proprietary Fund Types column and Business-Type Activity column of the basic financial statements. The complete financial statements can be obtained from the Financial Manager, South Hadley Electric Light Department, 85 Main Street, South Hadley, Massachusetts 01075.

The Town is responsible for electing the governing board of the South Hadley Housing Authority. The Town is also responsible for the collection of taxes of the South Hadley Fire Districts Nos. 1 and 2. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board members or handling the tax collections of the districts. Audited financial statements are available from the respective organizations. A description of the related organizations follows:

**South Hadley Housing Authority** - A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The Town has no significant influence over management, budget or policies of the authority.

**South Hadley Fire District Nos. 1 and 2** - Fire and water districts that provide water and fire services to the residents of the Town. The districts are autonomous and self-sufficient units under the General Laws of the Commonwealth of Massachusetts. The Town has no significant influence over management, budget or policies of the districts.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustment necessary to reconcile ending net position and the change in net position.

**Major Fund Criteria**

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

- If the total assets, liabilities, revenues or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

*and*

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

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

Proprietary and fiduciary funds are reported by fund type.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

**Government-Wide Financial Statements**

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's enterprise funds and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues of the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported.

**Fund Financial Statements**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Town reports the following major governmental funds:

The *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.

The Town reports the following major proprietary funds:

The *sewer fund* is used to account for the sewer activities.

The *landfill fund* is used to account for the landfill activities.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The *municipal golf course fund* is used to account for activities of a municipal golf course.

The *electric light fund* is a blended component unit used to account for activities of the government's electric distribution operations.

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

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

Additionally, the Town reports the following fund types:

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

The *Other Post Employment Benefit (OPEB) trust funds* are used to account for the assets held by the Town and the Electric Light Department (as of December 31, 2017) in trust for the payment of future retiree health insurance benefits. The assets of the OPEB trust funds cannot be used to support the Town's or Electric Light Department's operations.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **D. Cash and Cash Equivalents**

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

Investment income from proprietary funds is maintained in those funds.

**E. Investments**

The Town maintains investments according to Massachusetts General Laws and adopted policies. Investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.

Level 3 inputs are unobservable for the asset or liability.

Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

Additional investment disclosures are presented in these Notes.

**F. Receivables**

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

**Property Taxes and Tax Liens**

Property taxes are based on assessments as of January 1, 2017 and include betterments, special assessments and liens. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The Town has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The Town mailed preliminary tax bills for the fiscal year 2018 on June 30, 2017 and September 29, 2017 that were due on August 1, 2017 and November 1, 2017. The actual tax bills were mailed on December 29, 2017 and March 29, 2018 and were due on February 1, 2018 and May 1, 2018, respectively.

The Commonwealth of Massachusetts electorate in November 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town. The legal levy limit under Proposition 2 1/2 for fiscal year 2018 is as follows:

Legal Levy Limit Under Proposition 2 1/2 for fiscal year 2018	\$ 26,151,095
Add: Debt Exclusion	<u>1,062,683</u>
Maximum Allowable Levy	<u><u>\$ 27,213,778</u></u>

The total amount raised by taxation was \$27,205,039.

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

**Excise Taxes**

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel registered in the Town, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the Town is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by \$25 per \$1,000 of value or \$10 per \$1,000 of valuation, respectively.

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

**User Charges**

User charges and fees consist of landfill, sewer and electric light and are levied monthly based on individual meter readings and usage and are subject to penalties and interest if they are not paid by the respective due date. Landfill and sewer liens are processed each year and are included as a lien on the property owner's tax bill. Landfill, sewer charges, and liens are recorded as receivables in the fiscal year of the levy.

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

**Departmental**

Departmental receivables consist of parking, highway, police-off duty details and others.

The allowance for uncollectibles relates to ambulance, parking and highway are based upon historical trends. The other departmental receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Due from Other Governments**

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

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

**G. Capital Assets**

Capital assets, which include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<b>Capital Asset Type</b>	<b>Years</b>
Buildings and renovations	20-40
Machinery, equipment and other	3-10
Infrastructure	20-50

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

Depreciation for the Electric Light Department is computed using the straight-line method at composite rates as prescribed by the Massachusetts Department of Public Utilities (DPU). Depreciation was calculated using a composite rate of 3% in 2017.

**H. Inventories**

Inventories in the electric light business-type activities, which consists of poles and fixtures, conductors and devices, underground conduits, transformers, meters and street lights, is valued at the lower of cost or market using the first-in, first out flow assumption.

**I. Restricted Cash and Cash Equivalents**

Certain assets of the Electric Light Department are classified as restricted because their use is limited.

- *Depreciation fund.* This fund is restricted to specific uses by the General Laws of Massachusetts. Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is to be transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of utility plant, nuclear decommissioning costs, costs of contractual commitments, and deferred costs related to such commitments.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

- *Customers' deposits.* The Electric Light Department requires security deposits from certain residential and commercial customers. These deposits, including accrued interest, are held in escrow and reflected as a liability in the financial statements.
  
- *Purchase Power Advances.* Under the terms of the Department's member agreement with the Massachusetts Municipal Wholesale Electric Company (MMWEC), the Department is required to prepay various operating expenses and provide for certain working capital requirements for various projects that are operational. The Department charges items to expense when MMWEC indicates that an expense has been incurred.

**J. Interfund Transfers**

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

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers net".

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

**K. Deferred Outflows and Inflows of Resources**

**Government-wide financial statements**

The government-wide financial statements *Statement of Net Position* includes a separate section, listed below total assets, for *deferred outflows of resources*. This represents the usage of net position applicable for future period(s) and will not be recognized as expenditures until the future period to which it applies. Currently, the only items in this category are *deferred loss on refunding, deferred outflows related to pensions and deferred outflows related to OPEB*. A deferred loss is the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt. Regarding the deferred outflows related to pensions for future pension revenues; see note 4F for more information. The deferred outflows related to OPEB for future retiree health and life insurance expenses is explained in note 4G. These amounts are deferred and recognized as outflows of resources in the period that the amounts become available.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the only items in this category are *deferred inflows related to pensions and deferred inflows related to OPEB*. Regarding the deferred outflows related to pensions for future pension revenues; see note 4F for more information. The deferred inflows related to OPEB for future retiree health and life insurance expenses is explained in note 4G. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Fund financial statements**

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

**L. Net Position and Fund Balances**

In the Government-Wide financial statements, the difference between the Town's total assets, deferred outflows of resources, total liabilities and deferred inflows of resources represents net position. Net position displays three components – net investment in capital assets; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position has been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" - represents amounts restricted by the federal and state government for various programs.

"Permanent funds" – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds" – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other purposes" represents restrictions placed on assets from outside parties.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority, which is the Town meeting action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit.

*Assigned fund balance.* This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and Town board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

**M. Long-term Debt**

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position.

The face amount of governmental funds long-term debt is reported as other financing sources.

**N. Compensated Absences**

The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay. Town employees are provided a maximum of 20 days of accumulated sick leave. To be eligible, the individual must have accumulated a minimum of 150 days of sick leave and have twenty or more years of continuous service to the Town.

**O. Other Noncurrent Liabilities**

Other noncurrent liabilities consist of claims and other miscellaneous liabilities payable in greater than one year.

**P. Pension Benefits**

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

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Q. Post Retirement Benefits**

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 55%, 65%, 70% and 74% of insurance premiums for retirees, spouses and surviving spouses in the general fund in the fiscal year paid.

**R. 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 revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**S. Total Column**

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

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for the acceptance of grants, capital projects, and borrowing authorizations, annual budgets are not prepared for any other fund; therefore, comparison of budget to actual is only presented for the General Fund.

The Town must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non-property tax revenues estimated to be received, including available funds.

The Town follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

- Estimates are submitted by departments in accordance with Massachusetts General Laws.
- The budget is legally enacted by vote at the annual Town meeting.
- Supplemental appropriations may be made from available funds after the setting of the tax rate with Town meeting approval.
- Throughout the year appropriations may be transferred between departments with Town meeting approval.

Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

For fiscal year 2018, the Town incurred a final budget deficit of \$2,949,274 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unassigned fund balance:	
Free cash votes	\$ 2,371,954
Reserved for debt	23,538
Prior year's encumbrances	553,782
	\$ 2,949,274
	\$ 2,949,274

**B. Deficit Fund Balance**

The following funds have deficits at June 30, 2018 as measured by the balance of unreserved fund balance.

- The *Plains School Construction* capital project fund has a deficit of \$350,992. The Town has a temporary bond anticipation note outstanding of \$327,000 for this project. The deficit will be eliminated upon the issuance of permanent debt and upon appropriation.
- The *Sidewalk repairs* capital project fund has a deficit of \$371,900. The Town has a temporary bond anticipation note outstanding of \$500,000 for this project. The deficit will be eliminated upon the issuance of permanent debt.
- The *Town Hall elevator rebuild* capital project fund has a deficit of \$24,610. The deficit will be eliminated upon appropriation.
- The *Public safety grants* special revenue funds have various deficits of \$21,916 (Bullet Proof Vests of \$12,450; Traffic Enforcement grant of \$27; Police SETB Training grant of \$8,842; and Police Reimbursement grant of \$597). These deficits will be eliminated upon the future receipt of grant funds or upon appropriation.
- The *River to Range* special revenue fund has a deficit of \$17,503. The deficit will be eliminated upon the future receipt of grant funds or upon appropriation.

**3. DETAILED NOTES**

**A. Deposits and Investments**

**Custodial Credit Risks – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The government has a deposit policy for custodial credit risk. Deposits at June 30, 2018 were \$18,671,050. Of these, \$1,001,199 are exposed to custodial credit risk as uninsured and uncollateralized.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Investment Policies**

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less. The MMDT is an external investment pool that meets the criteria established under GASB Statement No. 79 to report its investments at amortized cost.

As of June 30, 2018, the Town had the following investments and maturities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>	
		<b>Less Than 1</b>	<b>1 to 5</b>
<b>Debt Securities:</b>			
U. S. treasury obligations	\$ 3,087,506	\$ 1,870,197	\$ 1,217,309
U. S. government agencies	4,918,940	-	4,918,940
Corporate bonds	3,390,036	109,608	3,280,428
Money market mutual fund	137,171	137,171	-
	<u>11,533,653</u>	<u>\$ 2,116,976</u>	<u>\$ 9,416,677</u>
<b>Other Investments:</b>			
Certificates of deposit	4,474,330		
Equity mutual funds	255,003		
Equity securities - domestic	4,049,753		
	<u>\$ 20,312,739</u>		

**Custodial Credit Risks**

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's \$20,312,739 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name.

**Interest Rate Risk**

The Town does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Credit Risk**

The Town's exposure to credit risk as of June 30, 2018 is as follows:

Related Debt Instruments	Fair Value
<b>Moody's Quality Ratings</b>	
<b><i>U. S. Treasury Obligations:</i></b>	
Aaa	\$ 3,087,506
<b><i>U. S. Government Agencies:</i></b>	
Aaa	4,918,940
<b><i>Corporate Bonds:</i></b>	
A1	399,733
A2	565,227
A3	494,368
Baa1	991,599
Baa3	939,109
<b><i>Money Market Mutual Funds:</i></b>	
Not rated	137,171
	\$ 11,533,653

**Concentration of Credit Risk**

The Town places no limit on the amount the Town may invest in one issuer. More than 5 percent of the Town's investments are in Federal Home Loan Mortgage Corporation amounting to 23.44% of the Town's total investments.

**Fair Value of Investments**

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

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The Town has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Fair Value	Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U. S. treasury obligations	\$ 3,087,506	\$ 3,087,506	\$ -	\$ -
U. S. government agencies	4,918,940	4,918,940	-	-
Certificates of deposit	4,474,330	4,474,330	-	-
Equity mutual funds	255,003	255,003	-	-
Equity securities - domestic	4,049,753	4,049,753	-	-
Money market mutual fund	137,171	137,171	-	-
Corporate bonds	3,390,036	-	3,390,036	-
<b>Total Investments</b>	<b>\$ 20,312,739</b>	<b>\$ 16,922,703</b>	<b>\$ 3,390,036</b>	<b>\$ -</b>

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**B. Receivables**

At June 30, 2018, receivables for the individual major governmental funds, non-major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<b>Major and nonmajor governmental funds:</b>			
Property taxes	\$ 528,939	\$ (80,992)	\$ 447,947
Tax liens	325,366	-	325,366
Excise taxes	314,426	(138,500)	175,926
Departmental	16,025	-	16,025
Due from other governments	953,150	-	953,150
	<b>\$ 2,137,906</b>	<b>\$ (219,492)</b>	<b>\$ 1,918,414</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

At June 30, 2018, receivables for the business-type activities consist of the following:

	<b>Gross Amount</b>	<b>Allowance for Uncollectibles</b>	<b>Net Amount</b>
<b>Sewer Fund:</b>			
User charges	\$ 195,098	\$ (1,500)	\$ 193,598
Tax liens	5,559	-	5,559
Due from other governments	53,795	-	53,795
<b>Landfill Fund:</b>			
User charges	34,170	(500)	33,670
Tax liens	935	-	935
<b>Electric Light Fund:</b>			
<b>(As of December 31, 2017)</b>			
User charges	1,073,500	(404,290)	669,210
	<u>\$ 1,363,057</u>	<u>\$ (406,290)</u>	<u>\$ 956,767</u>

The composition of amounts due from other governments as of June 30, 2018 for governmental funds is as follows:

<b>General Fund:</b>			
<b>Commonwealth of Massachusetts:</b>			
Department of Revenue:			
Veterans, blind and surviving spouses	\$	74,539	
Department of Veterans Services:			
Veterans benefits		<u>282,958</u>	\$ 357,497
<b>Nonmajor Governmental Funds:</b>			
<b>U.S. Department of Agriculture:</b>			
School lunch		26,317	
<b>U.S. Department of Education:</b>			
School title grants		220,617	
<b>U.S. Department of Health and Human Services:</b>			
Council on aging - Title III C		10,107	
<b>Commonwealth of Massachusetts:</b>			
Department of Conservation and Recreation:			
River to Range grant		31,166	
Department of Elementary and Secondary Education:			
School lunch		766	
Special education reimbursement fund		193,719	
Executive Office of Public Safety and Homeland Security			
Public Safety Grants		752	
Massachusetts Department of Transportation:			
Highway Department - Chapter 90 funded projects		106,677	
Massachusetts Emergency Management Agency		4,452	
<b>Other</b>		<u>1,080</u>	<u>595,653</u>
			<u>\$ 953,150</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The composition of amounts due from other governments as of June 30, 2018 for the business-type funds is as follows:

<b>Sewer Fund:</b>	
<b>Massachusetts Clean Water Trust:</b>	
Principal loan subsidy	<u>\$ 53,795</u>

The Massachusetts Clean Water Trust (MCWT) subsidy is related to a loan used to finance the construction of the water treatment plant in a prior period. The Town is responsible for net loan repayments as scheduled. The loan subsidy amounts are constructively received from the MCWT as principal and interest payments are incurred on the loan; and are scheduled to continue through fiscal year 2020.

**C. Deferred Outflows and Inflows of Resources – Unavailable Revenue**

The government-wide financial statements statement of net position includes a separate section, listed below total assets, for *deferred outflows of resources*. The only items in this category are the governmental type and business-type *deferred loss on refunding*, *deferred outflows related to pension* and *deferred outflows related to OPEB*. A deferred loss is the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt. The current total balance is \$123,087 (governmental type of \$37,000 and business-type of \$86,087) and is amortized until fiscal year 2029. The governmental and business-type activity outflows as related to pensions outflows and outflows as related to OPEB are explained in notes 4F and 4G.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. The governmental and business-type activities inflows as related to pensions and inflows as related to OPEB are explained in notes 4F and 4G.

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

<b>General Fund:</b>	
Property taxes	\$ 354,947
Tax liens	325,366
Excise taxes	175,926
Departmental	16,025
Due from other governments	<u>215,977</u>
	\$ 1,088,241
<b>Nonmajor governmental funds:</b>	
Due from other governments	<u>60,996</u>
	<u>\$ 1,149,237</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**D. Capital Assets**

Capital assets for the governmental and business-type activities for the year ended June 30, 2018, are as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 3,792,579	\$ 32,206	\$ (110,085)	\$ 3,714,700
Construction in progress	378,673	277,279	(197,109)	458,843
Total capital assets not being depreciated	4,171,252	309,485	(307,194)	4,173,543
Capital assets being depreciated:				
Buildings and Renovations	83,740,472	622,470	-	84,362,942
Machinery, equipment and other	4,403,989	478,487	(669,639)	4,212,837
Infrastructure	25,120,632	448,836	-	25,569,468
Total capital assets being depreciated	113,265,093	1,549,793	(669,639)	114,145,247
Less accumulated depreciation for:				
Buildings and Renovations	27,109,168	2,749,618	-	29,858,786
Machinery, equipment and other	3,838,656	257,436	(669,639)	3,426,453
Infrastructure	16,766,260	737,131	-	17,503,391
Total accumulated depreciation	47,714,084	3,744,185	(669,639)	50,788,630
Total capital assets being depreciated, net	65,551,009	(2,194,392)	-	63,356,617
Total governmental activities capital assets, net	<u>\$ 69,722,261</u>	<u>\$ (1,884,907)</u>	<u>\$ (307,194)</u>	<u>\$ 67,530,160</u>

Depreciation expense was charged to functions/programs of the governmental type activities as follows:

<b>Governmental Activities:</b>	
General government	\$ 50,488
Public safety	103,744
Public works	863,708
Education	2,113,406
Health and human services	95,218
Culture and recreation	517,621
Total depreciation expense - governmental activities	<u>\$ 3,744,185</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Business-type Activities:**

**Sewer Activities**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 170,171	\$ -	\$ -	\$ 170,171
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	170,171	-	-	170,171
Capital assets being depreciated:				
Machinery, equipment and other	618,206	-	(116,490)	501,716
Infrastructure	24,935,006	-	-	24,935,006
Total capital assets being depreciated	25,553,212	-	(116,490)	25,436,722
Less accumulated depreciation for:				
Machinery, equipment and other	518,647	37,909	(116,490)	440,066
Infrastructure	16,267,065	651,086	-	16,918,151
Total accumulated depreciation	16,785,712	688,995	(116,490)	17,358,217
Total capital assets being depreciated, net	8,767,500	(688,995)	-	8,078,505
Total business-type activities capital assets, net	\$ 8,937,671	\$ (688,995)	\$ -	\$ 8,248,676

**Landfill Activities**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 193,138	\$ -	\$ -	\$ 193,138
Total capital assets not being depreciated	193,138	-	-	193,138
Capital assets being depreciated:				
Buildings and Renovations	1,926,367	-	-	1,926,367
Machinery, equipment and other	53,875	18,200	-	72,075
Total capital assets being depreciated	1,980,242	18,200	-	1,998,442
Less accumulated depreciation for:				
Buildings and Renovations	1,502,567	77,054	-	1,579,621
Machinery, equipment and other	27,362	9,395	-	36,757
Total accumulated depreciation	1,529,929	86,449	-	1,616,378
Total capital assets being depreciated, net	450,313	(68,249)	-	382,064
Total business-type activities capital assets, net	\$ 643,451	\$ (68,249)	\$ -	\$ 575,202

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

<b>Municipal Golf Course Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 715,000	\$ -	\$ -	\$ 715,000
Total capital assets not being depreciated	715,000	-	-	715,000
Capital assets being depreciated:				
Buildings and Renovations	6,905,591	-	-	6,905,591
Total capital assets being depreciated	6,905,591	-	-	6,905,591
Less accumulated depreciation for:				
Buildings and Renovations	3,520,232	184,056	-	3,704,288
Total accumulated depreciation	3,520,232	184,056	-	3,704,288
Total capital assets being depreciated, net	3,385,359	(184,056)	-	3,201,303
Total business-type activities capital assets, net	\$ 4,100,359	\$ (184,056)	\$ -	\$ 3,916,303

<b>Electric Light Activities (in thousands) (As of December 31, 2017)</b>	<b>Beginning Balance</b>	<b>Increases/ Adjustments</b>	<b>Decreases/ Adjustments</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 344,448	\$ -	\$ -	\$ 344,448
Construction in progress	54,720	-	-	54,720
Total capital assets not being depreciated	399,168	-	-	399,168
Capital assets being depreciated:				
Distribution plant	29,578,009	517,615	(634,082)	29,461,542
General plant	5,485,018	252,694	-	5,737,712
Total capital assets being depreciated	35,063,027	770,309	(634,082)	35,199,254
Less: accumulated depreciation	30,696,106	1,051,891	(634,082)	31,113,915
Total capital assets being depreciated, net	4,366,921	(281,582)	-	4,085,339
Total electric light activities capital assets, net	\$ 4,766,089	\$ (281,582)	\$ -	\$ 4,484,507

Depreciation expense was charged to functions/programs of the business-type activities as follows:

<b>Business-Type Activities:</b>	
Sewer fund	\$ 688,995
Landfill fund	86,449
Municipal golf course fund	184,056
Electric light fund	1,051,891
Total depreciation expense - business-type activities	<u>\$ 2,011,391</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**E. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2018, are summarized below:

Transfers Out:	Transfers In:			Total
	General fund	Nonmajor Governmental fund	Business-type fund	
General fund	\$ -	\$ 365,418	\$ 457,517	\$ 822,935
Nonmajor governmental funds	266,311	-	-	266,311
Business-type fund	1,330,810	-	-	1,330,810
<b>Total transfers out</b>	<b>\$ 1,597,121</b>	<b>\$ 365,418</b>	<b>\$ 457,517</b>	<b>\$ 2,420,056</b>

The remaining amount shown on the Statement of Activities represents transfers that took place when the year end conversions occurred from a fiscal year June 30th end to a calendar year December 31st year end for the electric enterprise funds.

**F. Short-Term Financing**

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type fund are as follows:

Governmental Activities						
Purpose	Interest Rate	Final Maturity Date	Balance July 1, 2017	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2018
<b>Bond Anticipation Notes:</b>						
Municipal Purpose Loan	0.84%	7/21/2017	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
Municipal Purpose Loan	0.85%	7/21/2017	1,192,400	-	1,192,400	-
Plains Elementary School	1.25%	6/27/2018	1,070,000	-	1,070,000	-
Roads & Sidewalks	1.29%	7/30/2018	-	500,000	-	500,000
Plains Elementary School	1.95%	7/30/2018	-	327,000	-	327,000
<b>Total Governmental Activities</b>			<b>\$ 4,262,400</b>	<b>\$ 827,000</b>	<b>\$ 4,262,400</b>	<b>\$ 827,000</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**G. Long Term Debt**

**General Obligation Bonds**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding of the governmental type fund are as follows:

	<b>Interest Rate</b>	<b>Date Issued</b>	<b>Final Maturity Date</b>	<b>Original Amount Issued</b>	<b>Outstanding June 30, 2018</b>
<b>Inside Debt:</b>					
Municipal Purpose Loan of 2011:					
Library Land Purchase	1.81%	9/15/2011	8/1/2021	\$ 723,000	\$ 280,000
Municipal Purpose Loan of 2013:					
School Building Projects	2.73%	12/18/2013	5/15/2029	3,288,000	2,325,000
New Public Library	3.62%	12/18/2013	5/15/2038	3,498,860	3,065,000
Energy Improvements to Buildings	1.24%	12/18/2013	5/15/2019	29,140	5,000
Energy Conservation Loan of 2013:					
Energy Improvements to Buildings	4.75%	12/18/2013	12/15/2032	1,901,000	1,600,000
Municipal Purpose Loan of 2014:					
New Public Library	3.08%	12/16/2014	5/15/2039	397,000	365,000
Highway Equipment	1.95%	12/16/2014	5/15/2039	243,000	180,000
Municipal Purpose Loan of 2015:					
Library construction	2.50%	11/10/2015	5/15/2035	219,931	195,000
Municipal Purpose Loan of 2017:					
Building Renovations	2.42%	7/20/2017	6/15/2033	1,445,500	1,445,500
Departmental Equipment	2.10%	7/20/2017	6/15/2029	639,000	639,000
Recreational Facilities	2.32%	7/20/2017	6/15/2031	785,000	785,000
Sidewalk Repairs	2.30%	7/20/2017	6/15/2031	475,000	475,000
Street Construction	2.30%	7/20/2017	6/15/2031	440,500	440,500
Total Inside Debt					<u>11,800,000</u>
<b>Outside Debt:</b>					
Municipal Purpose Loan of 2007:					
School Projects	4.10%	4/11/2007	6/15/2021	4,465,000	380,000
Municipal Purpose Loan of 2013:					
Plains Elementary School	3.63%	12/18/2013	5/15/2038	1,075,000	945,000
Plains Elementary Feasibility Study	3.58%	12/18/2013	5/15/2038	289,000	245,000
Municipal Purpose Loan of 2014:					
Plains Elementary School	3.08%	12/16/2014	5/15/2039	8,600,000	7,875,000
Municipal Purpose Loan of 2015:					
Plains Elementary School	2.50%	11/10/2015	5/15/2035	2,765,000	2,535,000
Total Outside Debt					<u>11,980,000</u>
Total governmental type debt					<u>\$ 23,780,000</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Future Debt Service**

The annual principal and interest payments to retire all governmental type long term debt outstanding as of June 30, 2018, are as follows:

Year	Principal	Interest	Total
2019	\$ 1,465,000	\$ 823,926	\$ 2,288,926
2020	1,550,000	775,426	2,325,426
2021	1,490,000	720,692	2,210,692
2022	1,325,000	668,892	1,993,892
2023	1,305,000	624,508	1,929,508
2024-2028	6,240,000	2,444,367	8,684,367
2029-2033	5,715,000	1,440,309	7,155,309
2034-2038	4,155,000	563,238	4,718,238
2039	535,000	20,062	555,062
	<u>\$ 23,780,000</u>	<u>\$ 8,081,420</u>	<u>\$ 31,861,420</u>

General obligation bonds currently outstanding of the business-type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2018
<b>Inside Debt:</b>					
<b>Sewer Fund:</b>					
<b>Massachusetts Clean Water Trust:</b>					
Loan Number 97-54	N/A	11/1/1998	8/1/2018	\$ 741,300	\$ 48,300
Loan Number 98-128	N/A	10/1/1999	8/1/2019	1,199,383	139,447
Loan Number CW 05-26	2.00%	12/14/2006	7/15/2026	4,270,311	2,137,374
Loan Number CW 06-24	2.00%	12/18/2007	7/15/2027	1,386,301	748,830
Municipal Purpose Loan of 2011:					
Sewer Infiltration and Inflow	1.82%	9/15/2011	8/1/2021	300,000	120,000
Total Inside Debt					<u>3,193,951</u>
<b>Outside Debt:</b>					
<b>Municipal Golf Course Fund:</b>					
Municipal Purpose Loan of 2011:					
Municipal Gold Course Clubhouse	1.82%	9/15/2011	8/1/2021	404,563	160,000
Municipal Purpose Loan of 2017:					
Municipal Golf Course	2.50%	7/20/2017	8/15/2028	3,120,000	3,095,000
Total Outside Debt					<u>3,255,000</u>
Total business-type debt					<u>\$ 6,448,951</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Future Debt Service**

The annual principal and interest payments to retire all business-type long-term debt outstanding as of June 30, 2018, are as follows:

Year	Principal	Interest	Total
2019	\$ 705,284	\$ 171,017	\$ 876,301
2020	672,786	148,878	821,664
2021	613,984	129,241	743,225
2022	630,023	111,100	741,123
2023	581,185	93,388	674,573
2024-2028	2,915,689	210,778	3,126,467
2029	330,000	4,125	334,125
	<u>\$ 6,448,951</u>	<u>\$ 868,527</u>	<u>\$ 7,317,478</u>

A summary of the changes in governmental activities and business-type long-term obligations (including the Electric Light Department at December 31, 2017) follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due within One Year
<b>Governmental activities:</b>					
<b>Bonds Payable:</b>					
General obligation bonds	\$ 22,245,000	\$ 3,785,000	\$ 2,250,000	\$ 23,780,000	\$ 1,465,000
<b>Compensated absences</b>	693,533	7,494	31,201	669,826	72,578
<b>OPEB Obligation payable</b>	36,335,123	941,726	-	37,276,849	-
<b>Net pension liability</b>	23,767,947	-	4,546,753	19,221,194	-
<b>Deferred Outflows:</b> less					
loss on advance refunding	(49,334)	-	(12,334)	(37,000)	(12,333)
Governmental activity					
Long-term liabilities	<u>\$ 82,992,269</u>	<u>\$ 4,734,220</u>	<u>\$ 6,815,620</u>	<u>\$ 80,910,869</u>	<u>\$ 1,525,245</u>
<b>Business type activities:</b>					
<b>Bonds Payable:</b>					
General obligation bonds	\$ 3,800,000	\$ -	\$ 425,000	\$ 3,375,000	\$ 705,284
Massachusetts Clean					
Water Trust bonds	3,472,145	-	398,194	3,073,951	-
<b>Compensated absences</b>	180,750	42,691	-	223,441	170,682
<b>Other</b>	600,000	-	150,000	450,000	-
<b>OPEB Obligation payable</b>	2,259,698	-	56,569	2,203,129	-
<b>Net pension liability</b>	5,790,707	-	424,121	5,366,586	-
<b>Deferred Outflows:</b> less					
loss on advance refunding	(93,913)	-	(7,826)	(86,087)	(7,826)
Business-type activity					
Long-term liabilities	<u>\$ 16,009,387</u>	<u>\$ 42,691</u>	<u>\$ 1,446,058</u>	<u>\$ 14,606,020</u>	<u>\$ 868,140</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Massachusetts Clean Water Trust (MCWT)**

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$8,989,238 and interest costs of \$3,134,920 for six loans which the Town has borrowed from MCWT. The gross amount outstanding at June 30, 2018 for principal and interest combined for the loans is \$3,357,684. The subsidy set up as accounts receivable on the balance sheet is \$53,795. Since the Town is legally obligated for the total amount of the debt, such amounts for the gross principal have been recorded on the financial statements. The net repayments, including interest, are scheduled to be \$3,295,569. The fiscal year 2018 principal and interest subsidies totaled \$41,837.

**Current Refunding – July 20, 2017**

On July 20, 2017, the Town issued \$6,905,000 general obligation refunding bonds (\$3,785,000 in new debt and \$3,120,000 in refunding debt) with an effective interest rate of 2.28 percent. The current refund is Municipal Purpose Loan 2007 in \$3,225,000 of outstanding bonds with an average interest rate of 4.08 percent. As a result, the funded bonds are considered to be defeased and the liability has been removed from the general obligation long-term debt. This current refunding was undertaken to refund of golf course projects in business-type debt. The current refunding resulted in an economic gain of \$392,976.

**Legal Debt Limit**

Under Section 10 of Chapter 44 of the Massachusetts General Laws a Town may authorize indebtedness up to a limit of five percent of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2018 totaled \$14,993,951.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2018:

Equalized Valuation-Real Estate and Personal Property (2018)		<u>\$ 1,608,596,500</u>
Debt Limit: 5 % of Equalized value		80,429,825
Total Debt Outstanding	\$ 30,228,951	
Less: Debt Outside Debt Limit	<u>(15,235,000)</u>	<u>14,993,951</u>
 Inside Debt Excess Borrowing Capacity at June 30, 2018		 <u>\$ 65,435,874</u>

**Loans Authorized and Unissued - Memorandum Only**

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

Loan authorizations that have not been issued as of June 30, 2018 and are not reflected in the Town's financial statements are as follows:

<b>Date Town Meeting Authorized</b>	<b>Purpose</b>	<b>Amount</b>
5/3/1997	Repair, renovation, reconstruction, purchase of equipment or other improvements to South Hadley School	\$ 476
5/3/1997	Phase I - Sewer Separation in the Falls Area	6,816
5/2/1998	Phase II - Construction of Sewer Separation in the lower falls area	140,617
10/20/1998	Purchase of Equipment at the Department of Public Works Water Pollution Control - Capital Outlay	17,000
5/1/1999	Purchase of Capital Equipment	16,500
1/18/2005	Land Purchase - Northeast Utilities	318,347
5/14/2005	Phase II of Facility Plan Improvements	1,829,689
1/23/2007	Planning, Developing, Constructing and Equipping a Permanent Golf Clubhouse Facility	237,088
5/12/2007	Combined Sewer Overflow Diversion Project	125,000
11/9/2010	Plains Elementary School feasibility study	390,000
12/14/2011	New Public Library	69,140
1/10/2013	Plains Elementary School construction	14,673,801
1/10/2013	Buttery Brook Park renovations	400,000
11/12/2014	Building renovations, equipment and infrastructure improvements	2,677,600
		<u>\$ 20,902,074</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**H. Fund Balances**

The following is a summary of the Town's Governmental fund balances at the year ended June 30, 2018:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Nonspendable:</b>			
Permanent funds	\$ -	\$ 80,200	\$ 80,200
<b>Restricted:</b>			
Federal, state and local grants	-	620,424	620,424
School federal and state grants	-	648,205	648,205
Town revolving funds	-	239,586	239,586
School revolving funds	-	1,717,927	1,717,927
Donations and gifts	-	331,501	331,501
Cable access fund	-	459,168	459,168
Capital projects	-	1,216,550	1,216,550
Permanent funds	-	71,097	71,097
Restricted for debt	260,281	-	260,281
Other	-	248,573	248,573
	<u>260,281</u>	<u>5,553,031</u>	<u>5,813,312</u>
<b>Committed:</b>			
Conservation fund	-	77,351	77,351
Policeman's line of duty fund	-	607,023	607,023
Workers compensation insurance fund	-	472,381	472,381
	-	<u>1,156,755</u>	<u>1,156,755</u>
<b>Assigned:</b>			
General government	287,383	-	287,383
Public safety	20,072	-	20,072
Public works	120,597	-	120,597
Education	261,790	-	261,790
Health and human services	7,638	-	7,638
Culture and recreation	220,393	-	220,393
Employee benefits and insurance	39,506	-	39,506
Subsequent year's budget	683,460	-	683,460
	<u>1,640,839</u>	-	<u>1,640,839</u>
<b>Unassigned:</b>			
General Fund	7,296,346	-	7,296,346
Deficit special revenue	-	(39,419)	(39,419)
Deficit capital projects	-	(747,502)	(747,502)
	<u>7,296,346</u>	<u>(786,921)</u>	<u>6,509,425</u>
<b>Total Governmental fund balances</b>	<u>\$ 9,197,466</u>	<u>\$ 6,003,065</u>	<u>\$ 15,200,531</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**I. Special Trust Funds**

**Stabilization Fund**

Massachusetts General Laws, Chapter 40, Section 5B, allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. Any interest shall be added to and become a part of the fund.

At June 30, 2018 the balances in the stabilization funds are reported as unassigned fund balance consisting of the following:

General purpose stabilization fund	\$ 1,783,544
Capital stabilization fund	1,385,452
Energy stabilization fund	92,179
Senior Center stabilization fund	200,000
	<u>\$ 3,461,175</u>

**4. OTHER INFORMATION**

**A. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies that passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Hampshire County Health Group**

The Town, along with other government entities from the neighboring geographic area, is a member of the Hampshire County Health Group (HCHG), a public entity risk pool, currently operating as a common risk sharing management and health insurance program for eligible active and former employees of its members.

Payments in the form of insurance premiums, are made monthly to the HCHG. These payments are funded in part from the Town, recorded as expenditures in the general fund, and payroll withholdings from active employees, or direct payments from retired and certain eligible former employees. The Town pays between 55% and 74% of the cost of the insurance for active employees. Retired and other past employees who may be eligible to participate in the plan must pay between 26% and 45% of their premium costs.

The Town makes payments to HCHG in the form of monthly premiums based upon actual employee enrollment. HCHG makes payment, through a third-party administrator for actual health claims incurred for the entire group. At the end of HCHG's fiscal year, the Group's insurance consultant will determine if assets are sufficient to meet the anticipated needs of the ensuing year. It is anticipated that if claim liabilities exceed assets, premium rates will be adjusted prospectively to recover the necessary assets to meet claims.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

Based upon the unaudited draft results of operations of the HCHG for the fiscal year ended June 30, 2018, the Town's insurance consultants have reported the HCHG has accumulated a surplus of \$21,067,737 as of June 30, 2018.

**B. Landfill Closure and Post-Closure Care Costs**

The Town's landfill site is currently being operated and managed by an independent third party under an agreement dated June 23, 2009. Under this agreement, the third party agrees to operate and conduct closure on Cell 2B and develop, operate and conduct closure and post closure activities on the expansions as provided in the agreement. No accrual has been set up on the financial statements for closure and post-closure care costs as of the beginning or ending of the fiscal year. The Town receives a post-closure fee from a third party and these receipts are set up as a reserve on the financial statements. The actual cost of closure and post-closure care may be higher due to inflation, changes in technology, changes in estimates, or changes in landfill regulations. The balance of the reserve at June 30, 2018 is \$3,948,783.

**C. Contingent Liabilities**

**Litigation**

Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

The Town has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under the terms of the grant. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, although, based on prior experience, Town management believes such disallowances, if any, will not be material.

**Electric Light Department - Massachusetts Municipal Wholesale Electric Company**

The Town of South Hadley, acting through its Light Department, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W. F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

The South Hadley Electric Light Department has entered into Power Sales Agreements (PSAs) and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

As of December 31, 2017, total capital expenditures for MMWEC's Projects amounted to \$1,583,481,000, of which \$53,123,000 represents the amount associated with the Department's share of Project Capability, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects from Power Supply Project Revenue Bonds totaled \$10,680,000, of which \$579,000 is associated with the Department's share of Project Capability, although such amount is not allocated to the Department. As of December 31, 2017, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$11,425,000, of which \$600,000 is anticipated to be billed to the Department in the future.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The estimated aggregate amount of South Hadley Electric Light Department's required payments, under the PSAa and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2017 and estimated for future years is shown below.

<u>For years ended December 31,</u>	<u>Annual Costs</u>
2018	\$ 600,000
2019	-
	<u>\$ 600,000</u>

In addition, under the PSAs, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSA's were \$4,134,000 for the year ended December 31, 2017.

**Source of Labor Supply**

Fifty percent of the Department's labor force is covered under a collective bargaining agreement between the South Hadley Electric Light Department and the International Brotherhood of Electric Workers Local Union 455. The current agreement that expires June 30, 2018, was subsequently renewed for a three-year period ending June 30, 2020.

**Claims and Judgements**

From time to time, the Department is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Department's legal counsel that the likelihood is remote that any such claim or proceeding will have a materially adverse effect on the Department's financial position or results of operations.

**D. Subsequent Events**

Management has evaluated subsequent events through the date the financial statements were available to be issued.

**E. Tax Abatements**

The Town enters into property tax abatement agreements with local businesses under the Commonwealth of Massachusetts Economic Development Incentive Program Act of 1993 and as amended in 2009. Under this Act, state municipalities may grant property tax abatements of up to 100% of a business' property tax bill for the purpose of attracting or retaining these businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Town of South Hadley. As of June 30, 2018, the Town of South Hadley abated property taxes amounting to \$37,584 under one tax abatement agreement. The Town has not made any commitments as part of the agreements other than to reduce taxes.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**F. Pension Plan**

**Plan Description**

The Town is a member of the Hampshire County Retirement System (the System). The System is a cost-sharing multiple-employer public employee retirement system administered by the Hampshire County Retirement Board (the Board). Massachusetts General Laws (MGL), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers substantially all employees of its member employers except for current and retired teachers. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System at 99 Industrial Drive, Northampton, Massachusetts 01060.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan, to which the Town does not contribute. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for the contributions and future benefit requirements of the MTRS.

**Special Funding Situation**

The Commonwealth is a nonemployer contributor and is responsible by statute to make all actuarially determined contributions and future benefit requirements on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in the MTRS. Since the Town does not contribute directly to MTRS, there is no pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based upon each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2017. The Town's portion of the collective pension expense contributed by the Commonwealth of \$4,441,951 on-behalf payments for the fiscal year ending June 30, 2018 is reported as intergovernmental on-behalf payments in the revenue and employee benefits and insurance expenditures in the General Fund as of the measurement date.

**Benefits Provided**

Both the System and MTRS provide retirement, disability, and death benefits to plan members and beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) final average compensation times the member's years of creditable service prior to retirement. The percentage is based on the age of the member at retirement and his or her group classification. The authority for amending these provisions rests with the Massachusetts Legislature.

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

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

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Contributions**

MGL Chapter 32 governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The Town's proportionate share of the required contribution to the System for the year ended December 31, 2017 was \$2,787,457, representing 27.79% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

**Pension Liability**

As of June 30, 2018, the Town recognized a liability of \$24,270,796 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2017, the Town's proportional percentage was 13.07%, which was a slight decrease from the last measurement.

**Pension Expense**

For the year ended June 30, 2018, the Town recognized a pension expense of \$3,145,366, and reported deferred outflows of resources related to pensions of \$3,576,868 from the difference between projected and actual investment earnings on pension plan investment, changes in assumption and from the changes in proportion and differences between employer contributions and proportionate share of contributions; and deferred inflows of resources related to pensions of \$4,832,090 from the from the difference between projected and actual experience, the difference between projected and actual investment earnings on pension plan investment, changes in assumption and from the changes in proportion and differences between employer contributions and proportionate share of contributions.

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

<b>For years ended June 30,</b>	
<b>2019</b>	\$ 288,835
<b>2020</b>	89,997
<b>2021</b>	(483,692)
<b>2022</b>	(780,744)
<b>2023</b>	(206,490)
<b>Thereafter:</b>	(163,128)
	<u>\$ (1,255,222)</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated December 31, 2017:

Valuation date	January 1, 2018
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	increasing dollar amount by 4.00%
Remaining amortization period	16 years
Asset valuation method	Based on a five-year smoothing method. Investment gains or losses above or below the expected rate of investment return are recognized over 5 years, 20% per year. The actuarial value of assets must be no more than 110% of the market value of assets and no less than 90% of the market value of assets.
Investment rate of return	7.45% per year
Projected salary increases	4.25% per year (Group 1) and 4.75% per year (Group 2)
Inflation	3.00% per year
Cost of living adjustments	3.00% of \$13,000 per year.
Mortality rates	RP-2000 mortality table with Generational Mortality, projected with Scale BB with a base year of 2009. For members retired under Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. For disabled retirees, projected with a base year of 2012.

**Long-term Expected Real Rate of Return**

The long-term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect on inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The allocation percentages are based on information provided by the System and NEPC. The real rates of return are based on 30-year return estimates adjusted using a 2.75% inflation assumption.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2017, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	20.5%	4.82%
International Equities	16.5%	5.00%
Emerging Markets Equity	8.0%	6.50%
Domestic Fixed Income	10.0%	1.00%
Emerging Fixed Income	6.0%	3.75%
Global Fixed Income	3.0%	-0.25%
Opportunistic Fixed Income	9.0%	2.75%
Private Debt	3.0%	4.75%
Private Equity	10.0%	6.75%
Real Estate (Core)	12.0%	3.75%
Cash	2.0%	0.00%
Total	<u>100.0%</u>	

**Rate of Return**

For the year ended December 31, 2017, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 15.77%. The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. The money-weighted return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money-weighted rate of return calculation are determined monthly.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Section 22D and Section 22F of MGL Chapter 32. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments or 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.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.45%. As well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

	<b>1% Decrease (6.45%)</b>	<b>Current Discount Rate (7.45%)</b>	<b>1% Increase (8.45%)</b>
Town's net pension liability	\$ 31,865,904	\$ 24,270,796	\$ 17,873,073

**G. Other Post Employment Benefits Payable**

**Town: GASB Statement No. 74 and GASB Statement No. 75**

**GASB Statement No. 74 and GASB Statement No. 75**

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The Town recognizes the cost of post employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the Town's future cash flows.

**Plan Description**

In addition to providing pension benefits as described on the following footnote, the Town provided post-employment health care and life insurance benefits for retired employees, their dependents and beneficiaries. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. As of the actuarial valuation date there are approximately 738 active and retired employees that meet the eligibility requirements. The plan does not issue a separate financial report.

**Investments**

The Town's policy in regard to the allocation of invested assets is established and may be amended by the Selectboard by majority vote of its members. The OPEB plan's assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the Town's investment policy. As of June 30, 2018, investments, concentration and rate of return information consisted of pooled funds in the Town's Bartholomew Commonwealth Financial investments described earlier under Investment Policies (refer to note 3A).

**Funding Policy**

The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. For the period ending on the June 30, 2018 Measurement Date to Town premiums plus implicit costs for the retiree medical program were \$1,481,613. The Town also made a contribution to an OPEB Trust of \$480,000 for a total contribution during the measurement period of \$1,961,613. The Town did establish a trust fund in order to contribute funds to reduce the future OPEB liability. As of June 30, 2018, the Town's trust balance is \$892,405.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Measurement Date**

GASB Statement No. 74 and GASB Statement No. 75 require the net OPEB liability to be measured as of the OPEB Plan's most recent fiscal year-end. Accordingly, the net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

**Plan Membership:**

Current active members	397
Current retirees, beneficiaries and dependents	341
Total	738

**Net OPEB Liability**

The components of the net OPEB liability are as follows:

	<b>6/30/2018</b>
Total OPEB liability	\$ 39,923,190
Less: Plan fiduciary net position	(892,405)
Town's Net OPEB liability	\$ 39,030,785
Plan fiduciary net position as a percentage of the total OPEB liability	2.2%

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated for the reporting date of June 30, 2018, unless otherwise specified:

Valuation date	July 1, 2016
Actuarial cost method	Individual Entry Age Normal
Investment rate of return	7.05%, net of OPEB plan investment expense, including inflation
Single Equivalent Discount rate	4.75% net of OPEB plan investment expense, including inflation
Inflation rate	2.75% as of June 30, 2018 and for future periods
Participant salary increases	3.00% as of June 30, 2018 and for future periods
Healthcare cost trend rates	5.00% annually
Mortality rates	
Pre-retirement	RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 for males and females.
Post-retirement	RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 for males and females.
Disabled retirees	RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 for males and females.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The actuarial assumptions used the July 1, 2016 actuarial valuation and market value of assets as of the measurement date of June 30, 2018 were reflective of published municipal bond indices; the S&P Municipal Bond 20-year High Grade Rate Index is 2.98%.

**Long-term Expected Rate of Return**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The chart below shows how the long-term rate of return on assets is developed based on the Town's Investment Policy Statement.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity - Large Capital	23.33%	4.00%
Domestic Equity - Small/Mid Capital	11.67%	6.00%
International Equity - Developed Market	13.33%	4.50%
International Equity - Emerging Market	6.67%	7.00%
Domestic Fixed Income	20.00%	2.00%
International Fixed Income	5.00%	3.00%
Alternatives	20.00%	6.50%
Real Estate	0.00%	6.25%
Cash	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>	
I. Real Rate of Return		4.55%
II. Add: Inflation Assumption		2.75%
III. Total Nominal Return (I. + II.)		7.30%
IV. Less: Investment Expense		-0.25%
V. Net investment Return (III.-IV.)		7.05%

**Rate of Return**

For the year ended June 30, 2018, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 3.79%.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB	Plan Fiduciary	Total OPEB
	Liability	Net Position	Liability
Balances at June 30, 2017 GASB 45	\$ 38,303,280	\$ 388,678	\$ 37,914,602
Changes in Assumptions for GASB 75	116,976	-	116,976
Balances at June 30, 2017 GASB 75	<u>38,420,256</u>	<u>388,678</u>	<u>38,031,578</u>
Service cost	1,140,205	-	1,140,205
Interest on Total OPEB Liability, Service Cost, and Benefit Payments	1,844,342	-	1,844,342
Changes in benefit terms *	-	-	-
Changes in assumptions **	-	-	-
Difference between actual and expected experience **	-	-	-
Net investment income	-	23,727	(23,727)
Employer contributions to Trust	-	1,961,613	(1,961,613)
Total benefit payments including implicit cost	(1,481,613)	(1,481,613)	-
Administrative expense	-	-	-
Other charges	-	-	-
Net change in total OPEB liability	<u>1,502,934</u>	<u>503,727</u>	<u>999,207</u>
Balances at June 30, 2018 GASB 75	<u>\$ 39,923,190</u>	<u>\$ 892,405</u>	<u>\$ 39,030,785</u>

\* = Recognized immediately

\*\* = Amortized over 5 years

**Discount Rate**

The discount rate used to measure the total OPEB liability was 4.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.75%) or 1-percentage-point higher (5.75%) than the current rate:

	<b>1% Decrease (3.75%)</b>	<b>Current Discount Rate (4.75%)</b>	<b>1% Increase (5.75%)</b>
Town's net OPEB liability	\$ 45,241,994	\$ 39,030,785	\$ 34,040,220

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

The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rates:

	<b>1% Decrease (4.00%)</b>	<b>Healthcare Cost Trend Rates (5.00%)</b>	<b>1% Increase (6.00%)</b>
Town's net OPEB liability	\$ 29,734,192	\$ 39,030,785	\$ 50,802,323

**Summary of Significant Accounting Policies**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year, which are reported at cost.

**Expense, Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the GASB Statement No. 75 reporting period and fiscal year ending date, the Town recognized an OPEB expense of \$2,944,574 and reported deferred outflows of resources related to OPEB of \$16,246 and deferred inflows of resources related to OPEB of \$0.

The Town's net deferred outflows/(inflows) of resources related to OPEB will be recognized in the OPEB expense as follows:

<b>For years ended June 30,</b>	
<b>2019</b>	\$ 4,061
<b>2020</b>	4,061
<b>2021</b>	4,061
<b>2022</b>	4,063
	\$ 16,246

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**SHELD's GASB Statement No. 74 – Financial Reporting for OPEB Plans**

**Plan Description**

The Department participates in the Town of South Hadley's Other Post Employment Benefit Plan, a single employer defined benefit plan. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. The plan does not issue a separate financial report.

**Benefits Provided**

The Plan offers medical, dental and life insurance coverage to all eligible retired employees. A retired employee hired on or after April 2, 2012, becomes eligible upon reaching age 60 with ten years of service. A retired employee hired before April 2, 2012, becomes eligible upon reaching age 55 with 10 years of service or upon completing 20 years of service.

**Contributions**

As of December 31, 2017, a retired employee contributes 26% to 45% of stated premiums for their chosen medical plan, 100% of stated premiums for their chosen dental plan, and 50% of the premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical, dental and life insurance costs on a pay-as-you-go basis.

**Rate of Return**

For the year ended December 31, 2017, the annual money-weighted rate of return, net of investment expense, was 14.89%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net OPEB Liability of the Department**

The components of the net OPEB liability are as follows:

	<b>12/31/2017</b>
Total OPEB liability	\$ 1,170,608
Less: Plan fiduciary net position	<u>(765,442)</u>
SHELD's Net OPEB liability	<u><u>\$ 405,166</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 65.4%

**Actuarial Methods and Assumptions**

The Department recognized annual OPEB expense and net OPEB liability based on information obtained from an actuarial report. The net OPEB liability as of December 31, 2017, was measured as of December 31, 2016. The measurement date for the total OPEB liability and valuation date for the fiduciary net position were the same.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The measurement of the total OPEB liability was determined by an independent actuary using the entry age normal cost method. The assumptions used to measure the total OPEB liability included an inflation assumption of 2.75% per year and salary increases of 3.00% per year. Healthcare coverage assumptions include acceptance rates which were consistent with elections made by retiring employees in recent years. The mortality assumptions were based on the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2009 for males and females for non-disabled members. The forgoing table was set forward three years for disabled members. The healthcare cost trend assumptions are based on a trend rate of 5.00%.

The projected long-term rate of return on OPEB plan investments was determined using a building block method, which considers historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions. These best estimate ranges, net of long-term inflation are combined to produce the long-term expected rate of return of 5.84%.

**Long-term Expected Rate of Return**

The long-term expected rate of return on OPEB plan investments is developed based on the SHELD's investment policy is summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity - Large Capital	30.00%	4.00%
Domestic Equity - Small/Mid Capital	12.50%	6.00%
International Equity - Developed Market	7.50%	4.50%
International Equity - Emerging Market	0.00%	7.00%
Domestic Fixed Income	30.00%	2.00%
International Fixed Income	15.00%	3.00%
Real Estate	0.00%	3.25%
Alternatives	0.00%	6.50%
Cash	5.00%	0.00%
Total	<u>100.00%</u>	

**Discount Rate**

The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

The following presents the sensitivity of the net OPEB liability as well as what the Department's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

	<b>1% Decrease (5.00%)</b>	<b>Current Discount Rate (6.00%)</b>	<b>1% Increase (7.00%)</b>
SHELD's net OPEB liability	\$ 578,052	\$ 405,166	\$ 265,078

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

The following presents the net OPEB liability as well as what the SHELD's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate:

	<b>1% Decrease (4.00%)</b>	<b>Healthcare Cost Trend Rates (5.00%)</b>	<b>1% Increase (6.00%)</b>
SHELD's net OPEB liability	\$ 145,472	\$ 405,166	\$ 730,898

**SHELD's GASB Statement No. 75 – Financial Reporting for OPEB Employer**

**Plan Description**

The Department participates in the Town of South Hadley's Other Post Employment Benefit Plan, a single employer defined benefit plan. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. The plan does not issue a separate financial report.

**Plan Membership:**

Current active members	17
Current retirees, beneficiaries and dependents	14
Total	31

**Contributions**

As of December 31, 2017, a retired employee contributes 26% to 45% of stated premiums for their chosen medical plan, 100% of stated premiums for their chosen dental plan, and 50% of the premiums for a \$5,000 group term life insurance benefit. The Department contributes the remainder of the medical, dental and life insurance costs on a pay-as-you-go basis. The Department did establish a trust fund in order to contribute funds to reduce the future OPEB liability. As of December 31, 2017, the Electric Light Department's trust balance is \$765,442.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**Changes in the Net OPEB Liability**

The following schedule presents the changes in the Department's net OPEB liability for the year ended December 31, 2017:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Total OPEB Liability
Balances at December 31, 2016	\$ 1,179,051	\$ 615,808	\$ 563,243
Service cost	30,942	-	30,942
Interest on Total OPEB Liability, Service Cost, and Benefit Payments	71,255	36,948	34,307
Changes in benefit terms	-	-	-
Changes in assumptions	-	-	-
Difference between actual and expected experience	(120,349)	-	(120,349)
Difference between projected and actual earnings on plan investments	-	2,124	(2,124)
Net investment income	-	11,331	(11,331)
Employer contributions to Trust	-	45,495	(45,495)
Total benefit payments including implicit cost	(45,495)	(45,495)	-
Administrative expense	-	-	-
Net change in total OPEB liability	(63,647)	50,403	(114,050)
Balances at December 31, 2017 GASB 75	\$ 1,115,404	\$ 666,211	\$ 449,193

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

The following presents the SHEL D's net OPEB liability as well as what the SHEL D's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
	SHEL D's net OPEB liability	\$ 613,926	\$ 449,193

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

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

The following presents the SHEL D's net OPEB liability as well as what the SHEL D's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate:

	<b>1% Decrease (4.00%)</b>		<b>Healthcare Cost Trend Rates (5.00%)</b>		<b>1% Increase (6.00%)</b>
SHEL D's net OPEB liability	\$ 201,922	\$	449,193	\$	759,344

**Summary of Significant Accounting Policies**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year, which are reported at cost.

**Expense, Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2017, the GASB Statement No. 75 reporting period and fiscal year ending date, the SHEL D recognized an OPEB expense of \$8,423 and reported deferred outflows of resources related to OPEB of \$51,867 and deferred inflows of resources related to OPEB of \$122,473.

The SHEL D's net deferred outflows/(inflows) of resources related to OPEB will be recognized in the OPEB expense as follows:

<b>For years ended June 30,</b>	
<b>2018</b>	\$ (21,746)
<b>2019</b>	(21,746)
<b>2020</b>	(21,746)
<b>2021</b>	(4,943)
<b>Thereafter:</b>	(425)
	<b>\$ (70,606)</b>

**H. Implementation of New GASB Pronouncements**

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Post employment Benefit Plans Other Than Pension Plans*, for implementation in fiscal year 2018.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, for implementation in fiscal year 2018.

The GASB issued Statement No. 85, *Omnibus 2018*, for implementation in fiscal year 2018.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, for implementation in fiscal year 2018.

**I. Future GASB Pronouncements**

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

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, for implementation in fiscal year 2019.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for implementation in fiscal year 2019.

The GASB issued Statement No. 84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020.

The GASB issued Statement No. 87, *Leases*, for implementation in fiscal year 2021.

**5. RESTATEMENT**

The net position as of June 30, 2018 has been restated. As required by GASB Statement No. 75, the beginning net position decreased \$17,590,557 in the governmental activities and business-type activities to reflect the changes in the other post employment (OPEB) liability; and \$101,515 to reflect changes in the South Hadley Electric Light Department's deferred outflows related to pensions. Accordingly, the previously reported net position of \$55,475,952 has been revised to \$37,783,880; \$2,792,771 for governmental activities and \$34,991,109 for business-type activities.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Pension Plan Schedules**  
**Hampshire County Retirement System**  
**For the Year Ended June 30, 2018**

The Schedule of Proportionate Share of the Net Pension Liability represents multiyear trend information relating to the Town's proportion of the net pension liability and related ratios.

**Schedule of the Town's Proportionate Share of the Net pension Liability:**

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Town's proportion of the net pension liability (asset)	13.07%	13.58%	13.44%	12.47%
Town's proportionate share of the net pension liability (asset)	\$ 24,270,796	\$ 29,856,412	\$ 27,911,779	\$ 23,259,189
Town's covered employee payroll	\$ 10,031,595	\$ 10,526,077	\$ 10,017,192	\$ 10,413,324
Net pension liability percentage of covered-employee payroll	241.94%	283.64%	278.64%	223.36%
Plan fiduciary net position as a percentage of the total pension liability	63.12%	55.60%	55.30%	58.10%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Pension Plan Schedules**  
**Hampshire County Retirement System**  
**For the Year Ended June 30, 2018**

The Schedule of the Employer Contributions presents multiyear trend information on the Town's required and actual payments to the pension plan and related ratios.

**Schedule of the Town's Contributions:**

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially determined contribution	\$ 2,787,457	\$ 2,674,901	\$ 2,503,500	\$ 2,173,774
Less: Contributions in relation to the actuarially determined contribution	<u>(2,787,457)</u>	<u>(2,674,901)</u>	<u>(2,503,500)</u>	<u>(2,173,774)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered employee payroll	\$ 10,031,595	\$ 10,526,077	\$ 10,917,192	\$ 10,413,324
Contributions percentage of covered-employee payroll	27.79%	25.41%	22.93%	20.87%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Other Post Employment Benefit Plan Schedules**  
**For the Year Ended June 30, 2018**

**Town Schedule of Changes in the Net OPEB Liability:**

	<b>6/30/2018</b>
<b>Total OPEB liability</b>	
Service cost	\$ 1,140,205
Interest on net OPEB liability	1,844,342
Changes in Benefit terms	-
Changes in Assumptions	-
Difference between actual and expected experience	-
Benefit payments, including refunds of member contributions	(1,481,613)
Administrative expense	-
Other charges	-
Net change in total OPEB liability	1,502,934
Total OPEB liability-beginning	38,303,280
Changes in Assumptions for GASB 75	116,976
<b>Total OPEB liability-ending (a)</b>	<b>\$ 39,923,190</b>
 <b>Plan fiduciary net position</b>	
Net investment income	\$ 23,727
Employer contributions to Trust	1,961,613
Benefit payments, including refunds of member contributions	(1,481,613)
Administrative expense	-
Net change in plan fiduciary net position	503,727
Total fiduciary net position-beginning	388,678
<b>Total fiduciary net position-ending (b)</b>	<b>\$ 892,405</b>
 <b>Town's net OPEB liability (a-b)</b>	<b>\$ 39,030,785</b>

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Other Post Employment Benefit Plan Schedules**  
**For the Year Ended June 30, 2018**

**Town Schedule of Net OPEB Liability:**

	<b>6/30/2018</b>
Total OPEB liability	\$ 39,923,190
Less: Plan fiduciary net position	(892,405)
Town's Net OPEB liability	<b>\$ 39,030,785</b>
 Plan fiduciary net position as a percentage of the total OPEB liability	2.24%
 Town's share of covered employee payroll	\$ 21,847,702
 Participating employer net OPEB liability (asset) as a percentage of covered-employee payroll	178.65%

**Town Schedule of Contributions:**

	<b>6/30/2018</b>
Actuarially determined contribution	\$ 3,495,446
Less: Contributions in relation to the actuarially determined contribution	(1,961,613)
Contribution deficiency (excess)	<b>\$ 1,533,833</b>
 Town's share of covered employee payroll	\$ 21,847,702
 Contributions percentage of covered-employee payroll	8.98%
 Annual money-weighted rate of return net of investment expense	3.79%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Other Post Employment Benefit Plan Schedules**  
**For the Year Ended June 30, 2018**

**South Hadley Electric Light Department Schedule of Changes in the Net OPEB Liability:**

	<b>12/31/2017</b>
<b>Total OPEB liability</b>	
Service cost	\$ 30,942
Interest on net OPEB liability	71,255
Changes in Benefit terms	-
Changes in Assumptions	-
Difference between actual and expected experience	(120,349)
Benefit payments, including refunds of member contributions	(45,495)
Administrative expense	-
Net change in total OPEB liability	(63,647)
Total OPEB liability-beginning	1,179,051
<b>Total OPEB liability-ending (a)</b>	<b>\$ 1,115,404</b>
 <b>Plan fiduciary net position</b>	
Interest on total OPEB liability	\$ 36,948
Difference between projected and actual earnings on plan investments	2,124
Net investment income	11,331
Employer contributions to Trust	45,495
Benefit payments, including refunds of member contributions	(45,495)
Administrative expense	-
Net change in plan fiduciary net position	50,403
Total fiduciary net position-beginning	615,808
<b>Total fiduciary net position-ending (b)</b>	<b>\$ 666,211</b>
 <b>SHELD's net OPEB liability (a-b)</b>	<b>\$ 449,193</b>

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**Required Supplementary Information**  
**Other Post Employment Benefit Plan Schedules**  
**For the Year Ended June 30, 2018**

**South Hadley Electric Light Department Schedule of Net OPEB Liability:**

	<b>12/31/2017</b>
Total OPEB liability	\$ 1,115,404
Less: Plan fiduciary net position	(666,211)
SHELD's Net OPEB liability	\$ 449,193
Plan fiduciary net position as a percentage of the total OPEB liability	59.73%
SHELD's share of covered employee payroll	\$ 1,711,884
Participating employer net OPEB liability (asset) as a percentage of covered-employee payroll	26.24%

**South Hadley Electric Light Department Schedule of Contributions:**

	<b>12/31/2017</b>
Actuarially determined contribution	\$ 45,495
Less: Contributions in relation to the actuarially determined contribution	(45,495)
Contribution deficiency (excess)	\$ -
SHEILD's share of covered employee payroll	\$ 1,711,884
Contributions percentage of covered-employee payroll	2.66%
Annual money-weighted rate of return net of investment expense	8.18%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
Required Supplementary Information  
Other Post Employment Benefit Plan Schedules  
For the Year Ended June 30, 2018**

**Town Schedule of Funding Progress:**

<b>Other Post Employment Benefits</b>						
<b>Actuarial Measurement Date</b>	<b>Actuarial Fiduciary Net Position (A)</b>	<b>Actuarial Total OPEB Liability (B)</b>	<b>Actuarial Net OPEB Liability (B-A)</b>	<b>Actuarial Funded Ratio (A/B)</b>	<b>Actuarial Covered Payroll (C)</b>	<b>Actuarial Percentage of Covered Payroll ((B-A)/C)</b>
6/30/2018	\$ 892,405	\$ 39,923,190	\$ 39,030,785	2.2%	\$ 21,847,702	178.6%

**South Hadley Electric Light Department Schedule of Funding Progress:**

<b>Other Post Employment Benefits</b>						
<b>Date</b>	<b>Actuarial Fiduciary Net Position (A)</b>	<b>Actuarial Total OPEB Liability (B)</b>	<b>Actuarial Net OPEB Liability (B-A)</b>	<b>Actuarial Funded Ratio (A/B)</b>	<b>Actuarial Covered Payroll (C)</b>	<b>Actuarial Percentage of Covered Payroll ((B-A)/C)</b>
12/31/2017	\$ 666,211	\$ 1,115,404	\$ 449,193	59.7%	\$ 1,711,884	26.2%

Note: These schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

## **SUPPLEMENTARY SCHEDULES**

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Fund Balances July 1, 2017	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2018
<b>Special Revenue:</b>					
<b>Federal and State Grants:</b>					
School Grants	\$ 39,069	\$ 1,129,220	\$ 1,149,351	\$ -	\$ 18,938
Arts Lottery Council Grant	15,274	8,351	11,958	-	11,667
Board of Health Grants and Programs	23,044	52,000	58,819	-	16,225
Community Development Block Grants	61,380	260,837	322,217	-	-
Council on Aging Grants	41,978	182,045	171,355	-	52,668
Extended Polling Hours	7,967	-	1,505	-	6,462
Highway Grants	-	447,542	447,542	-	-
Library Grants	180,531	37,366	14,188	(11,800)	191,909
Other Grants and Programs	77,124	67,253	115,754	43	28,666
Public Safety Grants	(7,312)	135,330	133,996	-	(5,978)
Smart Growth Grant	340,384	-	33,079	(27,918)	279,387
<b>Schools:</b>					
School Lunch Program	106,896	675,019	674,986	-	106,929
School Lunch Commodities	-	59,945	59,945	-	-
School Private Grants	8,681	4,145	4,187	-	8,639
School Revolving Accounts	93,301	184,408	156,788	-	120,921
School Choice	1,281,268	1,007,982	799,173	-	1,490,077
State Special Education Reimbursement Fund	457,452	626,343	463,168	-	620,627
<b>Other:</b>					
Building Inspector assistance	-	9,500	6,500	-	3,000
Buttery Brook Park	19,734	23,158	33,573	-	9,319
Center School Rentals	11,196	-	-	-	11,196
Compost Bin Revolving	145	2,350	20	-	2,475
Council on Aging Activities Revolving	44,584	10,156	8,386	-	46,354
Dog Refund	30,968	17,130	346	(15,000)	32,752
<b>Total Special Revenue Page 87</b>	<b>\$ 2,833,664</b>	<b>\$ 4,940,080</b>	<b>\$ 4,666,836</b>	<b>\$ (54,675)</b>	<b>\$ 3,052,233</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Fund Balances July 1, 2017	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2018
<b>Continued from Page 87</b>	\$ 2,833,664	\$ 4,940,080	\$ 4,666,836	\$ (54,675)	\$ 3,052,233
<b>Special Revenue (continued):</b>					
<b>Other (continued):</b>					
Drug Forfeiture	14,826	-	2,987	-	11,839
Farm Tax Revolving	45,750	6,500	-	-	52,250
Forest Warden Revolving	304	-	-	-	304
Gifts and Donations	292,888	146,756	108,518	375	331,501
Insurance Proceeds	8,862	13,917	13,976	-	8,803
Landfill	42,448	-	-	-	42,448
Massachusetts Recycling Facility Grant	125	-	125	-	-
Massachusetts School Building Administration	1,945	-	-	-	1,945
Media One Video Studio	517,278	151,483	-	(209,593)	459,168
Police Outside Detail	-	267,019	266,093	-	926
Recreation Revolving	29,137	225,457	215,257	-	39,337
Sale of Real Estate	122,938	-	-	-	122,938
Small Cities Loan Repayments	3,238	440	-	-	3,678
Tax Title Revolving	515	4,935	738	-	4,712
Transportation Infrastructure	-	1,674	-	-	1,674
Waterways Improvement Fund	63,914	2,816	3,500	-	63,230
Wetlands Protection Fund	31,597	-	618	(2,000)	28,979
Conservation Fund	72,235	891	775	5,000	77,351
Policeman's Line of Duty Fund	631,696	(13,955)	50,718	40,000	607,023
Workers Compensation Insurance Fund	268,513	(7,148)	108,984	320,000	472,381
<b>Total Special Revenue</b>	<b>\$ 4,981,873</b>	<b>\$ 5,740,865</b>	<b>\$ 5,439,125</b>	<b>\$ 99,107</b>	<b>\$ 5,382,720</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Fund Balances July 1, 2017	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2018
<b>Capital Projects:</b>					
Athletic Facilities	\$ 10,107	\$ -	\$ -	\$ -	\$ 10,107
Capital expenditure program	14,347	-	-	-	14,347
Capital contingency allowance	-	-	-	10,000	10,000
Council on Aging floor	(7,590)	-	-	22,000	14,410
Energy Consevation project	20,877	-	3,260	-	17,617
Highway Garage roof replacement	-	-	-	50,000	50,000
Highway road improvements	(464,849)	-	32,000	1,000,000	503,151
Highway vehicles and equipment	(209,425)	-	310,508	530,000	10,067
Massachusetts School Building Administration:					
Plains School feasibility study	23,690	-	-	-	23,690
Plains School construction	(351,113)	121	-	-	(350,992)
Middle School improvements	(263,450)	-	-	263,450	-
Mosier Elementary School improvements	(394,050)	-	160,000	554,050	-
Old Firehouse improvements	-	-	50,074	55,000	4,926
Other School projects	17,641	-	-	-	17,641
Phone System	-	-	1,626	180,000	178,374
Premium on Bonds	-	-	71,533	78,527	6,994
School capital planning	125,154	-	-	-	125,154
Sidewalk repairs	(302,725)	-	69,175	-	(371,900)
South Hadley High School security system	(210,746)	-	-	215,900	5,154
South Hadley High School turf replacement	(900,000)	-	-	900,000	-
Town Common traffic improvement	22,099	-	-	-	22,099
Town Hall boilers	1,867	-	-	12,000	13,867
Town Hall elevator rebuild	(39,433)	-	60,177	75,000	(24,610)
Town Hall fire alarm upgrades	(60,161)	-	-	100,000	39,839
Town Hall/Police parking lot improvement	-	-	1,090	80,000	78,910
Town Hall roof replacement	-	-	98,315	125,000	26,685
Underground storage tank	43,518	-	-	-	43,518
<b>Total Capital Projects</b>	<b>\$ (2,924,242)</b>	<b>\$ 121</b>	<b>\$ 857,758</b>	<b>\$ 4,250,927</b>	<b>\$ 469,048</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Fund Balances July 1, 2017	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2018
<b>Perpetual Permanent Funds:</b>					
Cemetery Perpetual Care	\$ 400	\$ -	\$ -	\$ -	\$ 400
Elizabeth Gaylord Library Fund	5,000	-	-	-	5,000
Charles O'Gara Trust	54,800	-	-	-	54,800
Janet Ely-Gaylord Library Book Fund	20,000	-	-	-	20,000
<b>Total Perpetual Permanent Funds</b>	<b>80,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,200</b>
<b>Permanent Funds:</b>					
Cemetery Perpetual Care	1,564	(43)	-	-	1,521
Elizabeth Gaylord Library Fund	6,897	(260)	-	-	6,637
Charles O'Gara Trust	64,656	(2,605)	-	-	62,051
Janet Ely-Gaylord Library Book Fund	1,354	(466)	-	-	888
<b>Total Permanent Funds</b>	<b>74,471</b>	<b>(3,374)</b>	<b>-</b>	<b>-</b>	<b>71,097</b>
<b>Total - Non-Major Governmental Funds</b>	<b>\$ 2,212,302</b>	<b>\$ 5,737,612</b>	<b>\$ 6,296,883</b>	<b>\$ 4,350,034</b>	<b>\$ 6,003,065</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF REAL ESTATE, PERSONAL PROPERTY  
AND ROLLBACK TAXES  
JULY 1, 2017 TO JUNE 30, 2018**

	<b>Uncollected Taxes July 1, 2017</b>	<b>Commitments</b>	<b>Abatements and Adjustments</b>	<b>Collections Net of Refunds and Overpayments</b>	<b>Uncollected Taxes June 30, 2018</b>	<b>Uncollected Taxes Per Detail June 30, 2018</b>
<b>Real Estate Taxes:</b>						
Levy of 2018	\$ -	\$ 26,737,653	\$ 198,055	\$ 26,219,811	\$ 319,787	\$ 319,787
Levy of 2017	226,974	-	3,006	131,795	92,173	92,173
Levy of 2016	33,952	-	2,900	23,909	7,143	7,143
Levy of 2015	2,901	-	2,900	(1,738)	1,739	1,739
Levy of 2014	1,670	-	-	-	1,670	1,670
Prior Years	35,610	-	-	-	35,610	35,610
	<u>301,107</u>	<u>26,737,653</u>	<u>206,861</u>	<u>26,373,777</u>	<u>458,122</u>	<u>458,122</u>
<b>Personal Property Taxes:</b>						
Levy of 2018	-	467,385	2,582	457,640	7,163	7,163
Levy of 2017	5,990	-	-	3,172	2,818	2,818
Levy of 2016	4,451	-	-	743	3,708	3,702
Levy of 2015	2,001	-	-	201	1,800	1,800
Levy of 2014	1,981	-	-	262	1,719	1,719
Prior Years	31,039	-	-	(63)	31,102	31,102
	<u>45,462</u>	<u>467,385</u>	<u>2,582</u>	<u>461,955</u>	<u>48,310</u>	<u>48,304</u>
<b>Rollback Taxes</b>	<u>22,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,507</u>	<u>22,507</u>
<b>Total Real Estate, Personal Property and Rollback Taxes</b>	<u>\$ 369,076</u>	<u>\$ 27,205,038</u>	<u>\$ 209,443</u>	<u>\$ 26,835,732</u>	<u>\$ 528,939</u>	<u>\$ 528,933</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF MOTOR VEHICLE AND BOAT EXCISE TAXES  
JULY 1, 2017 TO JUNE 30, 2018**

	<b>Uncollected Taxes July 1, 2017</b>	<b>Commitments</b>	<b>Abatements and Adjustments</b>	<b>Collections Net of Refunds and Overpayments</b>	<b>Uncollected Taxes June 30, 2018</b>	<b>Uncollected Taxes Per Detail June 30, 2018</b>
<b>Motor Vehicle Excise Taxes:</b>						
Levy of 2018	\$ -	\$ 1,941,848	\$ 35,022	\$ 1,779,988	\$ 126,838	\$ 126,838
Levy of 2017	103,601	428,455	21,953	473,201	36,902	36,902
Levy of 2016	39,686	182	673	21,334	17,861	17,861
Levy of 2015	16,041	14	1,137	5,312	9,606	9,606
Levy of 2014	10,531	-	-	2,722	7,809	7,809
Prior Years	89,160	201	-	2,115	87,246	87,453
	<u>259,019</u>	<u>2,370,700</u>	<u>58,785</u>	<u>2,284,672</u>	<u>286,262</u>	<u>286,469</u>
<b>Boat Excise Taxes:</b>						
Levy of 2018	-	10,291	731	8,771	789	789
Levy of 2017	391	-	-	15	376	376
Levy of 2016	612	-	-	-	612	612
Levy of 2015	477	-	-	-	477	477
Levy of 2014	304	-	-	-	304	304
Prior Years	25,606	-	-	-	25,606	25,565
	<u>27,390</u>	<u>10,291</u>	<u>731</u>	<u>8,786</u>	<u>28,164</u>	<u>28,123</u>
<b>Total Motor Vehicle and Boat Excise Taxes</b>	<u>\$ 286,409</u>	<u>\$ 2,380,991</u>	<u>\$ 59,516</u>	<u>\$ 2,293,458</u>	<u>\$ 314,426</u>	<u>\$ 314,592</u>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF TAX LIENS  
JULY 1, 2017 TO JUNE 30, 2018**

	<b>Uncollected Accounts July 1, 2017</b>	<b>Commitments</b>	<b>Abatements and Adjustments</b>	<b>Collections Net of Refunds and Overpayments</b>	<b>Uncollected Accounts June 30, 2018</b>	<b>Uncollected Accounts Per Detail June 30, 2018</b>
<b>Tax Liens</b>	\$ 329,940	\$ 55,759	\$ 22,837	\$ 37,496	\$ 325,366	\$ 325,366

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF DEPARTMENTAL RECEIVABLES  
JULY 1, 2017 TO JUNE 30, 2018**

	Uncollected Accounts July 1, 2017	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2018	Uncollected Accounts Per Detail June 30, 2018
<b>General Fund:</b>						
Highway	\$ -	\$ 2,929	\$ -	\$ 2,929	\$ -	\$ -
Parking	16,105	1,260	-	1,340	16,025	16,025
<b>Total Departmental Receivables</b>	<b>\$ 16,105</b>	<b>\$ 4,189</b>	<b>\$ -</b>	<b>\$ 4,269</b>	<b>\$ 16,025</b>	<b>\$ 16,025</b>

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**

**INDEPENDENT AUDITOR'S REPORTS PURSUANT  
TO GOVERNMENTAL AUDITING STANDARDS  
AND UNIFORM GUIDANCE**

**FOR THE YEAR ENDED JUNE 30, 2018**

**TOWN OF SOUTH HADLEY, MASSACHUSETTS**

**Independent Auditors' Reports Pursuant  
To Governmental Auditing Standards  
And Uniform Guidance**

**For the Year Ended June 30, 2018**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>TABLE OF CONTENTS</b> .....	2
<b>INDEPENDENT AUDITOR'S REPORT ON:</b>	
Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	3-4
Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	5-7
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> .....	8-10
<b>NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> .....	11
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	12

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

To the Honorable Selectboard  
Town of South Hadley, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hadley, Massachusetts, as of and for the year ended June 30, 2018, (except for the South Hadley Electric Light Department, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the Town of South Hadley, Massachusetts' basic financial statements, and have issued our report thereon dated May 21, 2019. Our report includes a reference to other auditors who audited the financial statements of the South Hadley Electric Light Department, as described in our report on the Town of South Hadley, Massachusetts' financial statements. This report does not include the results of other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 of South Hadley, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.

*Scanlon and Associates, LLC*

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

May 21, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Selectboard  
Town of South Hadley, Massachusetts

**Report on Compliance for Each Major Federal Program**

We have audited the Town of South Hadley, Massachusetts' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of South Hadley, Massachusetts' major federal programs for the year ended June 30, 2018. The Town of South Hadley, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of South Hadley, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of South Hadley, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of South Hadley, Massachusetts' compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Town of South Hadley, Massachusetts, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## **Report on Internal Control Over Compliance**

Management of the Town of South Hadley, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of South Hadley, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hadley, Massachusetts' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hadley, Massachusetts, as of and for the year ended June 30, 2018, (except for the South Hadley Electric Light Department, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the Town of South Hadley, Massachusetts' basic financial statements. Our report includes a reference to other auditors who audited the financial statements of the South Hadley Electric Light Department, as described in our report of the Town of South Hadley, Massachusetts' financial statements. We issued our report thereon dated May 21, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Scanlon and Associates, LLC*

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

May 21, 2019

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U. S. Department of Agriculture</b>				
Passed Through Commonwealth of Massachusetts				
Department of Elementary and Secondary Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	08-278	\$ -	\$ 35,816
National School Lunch Program	10.555	08-278	-	295,341
Total Child Nutrition Cluster			-	331,157
Food Distribution - School Lunch Commodities	10.565	08-278	-	59,945
<b>Total U. S. Department of Agriculture</b>			-	391,102
<b>U. S. Department of Housing and Urban Development</b>				
Passed Through Commonwealth of Massachusetts				
Department of Housing and Community Development:				
Community Development Block Grants - State's Program:				
Community Development Fund II - FY 2015	14.228	CDF II -2015-00038	7,261	322,217
<b>Total U. S. Department of Housing and Urban Development</b>			7,261	322,217
<b>U. S. Department of Justice</b>				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607		-	7,390
Cops in Schools	16.710		-	595
<b>Total U. S. Department of Justice</b>			-	7,985
<b>U. S. Department of Transportation</b>				
Passed Through Commonwealth of Massachusetts				
Executive Office of Public Safety and Homeland Security:				
State and Community Highway Safety:				
Underage Alcohol Enforcement	20.600		-	517
Pedestrian and Bicycle Safety	20.600		-	1,007
Traffic Enforcement	20.600		-	3,956
Total State and Community Highway Safety			-	5,480
<b>Total U. S. Department of Transportation</b>			-	5,480
<b>Institute for Museum and Library Services</b>				
Passed Through Commonwealth of Massachusetts				
Board of Library Commissioners:				
Library Services and Technology Act - Serving Teens & Tweens	45.310		-	6,873
<b>Total Institute for Museum and Library Services</b>			-	6,873
<b>TOTAL FEDERAL AWARDS EXPENDED - PAGE 1 OF 3</b>			\$ 7,261	\$ 733,657

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U. S. Department of Education</b>				
Passed Through Commonwealth of Massachusetts				
Department of Elementary and Secondary Education:				
Title I, Part A:				
Title I - 2017	84.010	305-094092-2017-0278	\$ -	\$ 29,689
Title I - 2018	84.010	305-140812-2018-0278	-	174,501
Total Title I, Part A Cluster			-	204,190
Special Education Cluster:				
Special Education 94-142 Allocation - 2017	84.027	240-095432-2017-0278	-	117,081
Special Education 94-142 Allocation - 2018	84.027	240-144310-2018-0278	-	475,073
Special Education Program Improvement - 2017	84.027	274-030-7-0278-R	-	424
Total Special Education Cluster			-	592,578
Improving Teacher Quality State Grants:				
Teacher Quality - 2017	84.367	140-094093-2017-0278	-	255
Teacher Quality - 2018	84.367	140-140447-2018-0278	-	41,787
Total Improving Teacher Quality State Grants			-	42,042
Student Support and Academic Enrichment Program:				
Student Support and Academic Enrichment - 2018	84.424	309-154088-2018-0278	-	5,124
Total Student Support and Academic Enrichment Program			-	5,124
Emergency Impact Aid for Displaced Students	84.938		-	9,405
Passed Through Commonwealth of Massachusetts				
Department of Early Education and Care:				
Special Education Cluster:				
Special Education Early Childhood Allocation - 2017	84.173	EEC-262	-	6,887
Special Education Early Childhood Allocation - 2018	84.173	EEC-262	-	30,751
Total Special Education Cluster			-	37,638
<b>Total U. S. Department of Education</b>			-	890,977
<b>TOTAL FEDERAL AWARDS EXPENDED - PAGE 2 OF 3</b>			\$ -	\$ 890,977

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U. S. Department of Health and Human Services</b>				
Direct Program:				
Drug-Free Communities Support Program Grants:				
Drug Free Communities - 2016	93.276		\$ -	\$ 5,653
Drug Free Communities - 2017	93.276		-	46,685
Drug Free Communities - 2018	93.276		-	77,495
Total Drug-Free Communities Support Program Grants			<u>-</u>	<u>129,833</u>
Passed Through National Association of County and City Health Officials:				
Medical Reserve Corps	93.008		-	7,077
Passed Through WestMass Elder Care, Inc.:				
Aging Cluster:				
Title III-C-Nutrition Program for the Elderly	93.045		-	121,307
Elderly Meals Commodities	93.045		-	11,769
Total Aging Cluster			<u>-</u>	<u>133,076</u>
<b>Total U. S. Department of Health and Human Services</b>			<u>-</u>	<u>269,986</u>
<b>U. S. Department of Homeland Security</b>				
Passed Through Commonwealth of Massachusetts				
Emergency Management Agency:				
Emergency Management Performance Grants	97.042		-	4,452
<b>Total U. S. Department of Homeland Security</b>			<u>-</u>	<u>4,452</u>
<b>TOTAL FEDERAL AWARDS EXPENDED - PAGE 3 OF 3</b>			-	274,438
<b>TOTAL FEDERAL AWARDS EXPENDED - PAGE 2 OF 3</b>			-	890,977
<b>TOTAL FEDERAL AWARDS EXPENDED - PAGE 1 OF 3</b>			\$ 7,261	733,657
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<u>\$ 7,261</u>	<u>\$ 1,899,072</u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2018**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Town of South Hadley, Massachusetts, under programs for the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of South Hadley, Massachusetts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of South Hadley, Massachusetts.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C – INDIRECT COSTS**

The Town of South Hadley, Massachusetts, has not charged any indirect costs to any of its federal award programs.

**NOTE D – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

**TOWN OF SOUTH HADLEY, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_Yes      X  No
- Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)? \_\_\_\_\_Yes      X  No

Noncompliance material to financial statements noted? \_\_\_\_\_Yes      X  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_Yes      X  No
- Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)? \_\_\_\_\_Yes      X  None Reported

Type of Auditor’s Report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_Yes      X  No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	U. S. Department of Housing and Urban Development – Community Development Block Grants/State’s Program
84.027, 84.173	U. S. Department of Education – Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_Yes      X  No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**SECTION IV – PRIOR YEAR FINDINGS**

None reported.