

DEDHAM-WESTWOOD WATER DISTRICT
Financial Statements
For the Year Ended December 31, 2017
(With Independent Auditors' Report Thereon)

Dedham-Westwood Water District

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Dedham-Westwood Water District

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the Dedham-Westwood Water District (the District) as of and for the year ended December 31, 2017, which collectively comprise the District's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Dedham-Westwood Water District, at December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 33 to 37 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

June 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dedham-Westwood Water District's (the "District") annual financial report, District management offers readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2017.

The District provides water supply services to approximately 13,400 active customers and about 40,100 people, through metered sales in the communities of Dedham and Westwood. The District is responsible for operating and maintaining the water supply system, providing ongoing capital improvements, and for providing the highest quality water product at the lowest possible price.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the District include (1) the Comparative Statements of Net Position, (2) the Comparative Statements of Revenues, Expenses and Changes in Fund Net Position, (3) the Comparative Statements of Cash Flows, (4) the Comparative Statements of Fiduciary Net Position, (5) the Comparative Statements of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements. In addition, various pension and other postemployment benefit (OPEB) schedules are included in the Financial Statement as Required Supplementary Information.

The Comparative Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources with the difference 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. At December 31, 2017, it indicates the District's net worth as \$62,498,462 which comprises \$53,887,351 invested in capital assets and \$8,611,111 unrestricted.

The Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position summarizes operating and non-operating revenues and expenses for the year, reveals how much, if any, profit was earned for the year, and determines the net change in assets for the year. That change combined with the previous year-end net position total reconciles to the net position total at the end of the current year. As discussed in more detail below, the District's net income for December 31, 2017 was \$2,733,950.

The Statement of Cash Flows reports cash and cash equivalents activity for the year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year. A review of the District's Statement of Cash Flows indicates that the cash receipts from operating activities adequately covered District operating expenses in 2017.

The Statements of Fiduciary Net Position and Changes in Fiduciary Net Position represent the net position and changes in net position of the District's Other Post-Employment Benefit (OPEB) irrevocable trust fund.

The District's financial statements are prepared using proprietary fund (enterprise fund) and fiduciary fund accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting are used. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows.

B. FINANCIAL HIGHLIGHTS

As of the close of the current year, the District's net position is \$62,498,462. Net position has increased by \$2,733,950 in comparison to the prior year. The increase in net position is attributable to continuing positive operating results.

Operating revenues were \$9,802,413 for the District in 2017, a 3% decrease from 2016. There were two primary reasons for the decrease in revenue in 2017. First, the District did not have a water increase in 2016 and 2017. Second, there was a decrease in access fees in 2017.

Operating expenses were \$7,569,615 in 2017, an increase of 1% from 2016, primarily the result of increased costs for depreciation of \$90,854 and health care expenses of \$67,112.

The District's Statement of Cash Flows identifies the sources and uses of cash activity for the year. In 2017, District cash and cash equivalents increased by \$228,633 from 2016, primarily due to investing activities.

In 2017 the District continued to fund an irrevocable trust fund for its Other Post-Employment Benefits (OPEB), with additional funding of \$125,000.

C. FINANCIAL ANALYSIS

The following is a summary of condensed financial data for the current and prior years (in thousands).

SUMMARY OF NET POSITION

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 22,607	\$ 14,956
Capital assets	<u>57,772</u>	<u>54,896</u>
Total assets	80,379	69,852
Deferred outflows	1,030	1,214
Current liabilities	10,965	2,082
Noncurrent liabilities	<u>7,631</u>	<u>8,822</u>
Total liabilities	18,596	10,904
Deferred inflows	315	397
Net position:		
Net investment in capital assets	53,887	50,059
Unrestricted	<u>8,611</u>	<u>9,706</u>
Total net position	<u>\$ 62,498</u>	<u>\$ 59,765</u>

SUMMARY OF CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 9,802	\$ 10,156
Contributions revenue	358	372
Lease revenue	122	119
Investment income	<u>118</u>	<u>95</u>
Total revenue	10,400	10,742
Operating expense	7,570	7,479
Interest on long-term debt	<u>97</u>	<u>138</u>
Total expenses	<u>7,667</u>	<u>7,617</u>
Change in net position	2,733	3,125
Net position - beginning of year	<u>59,765</u>	<u>56,640</u>
Net position - end of year	<u>\$ 62,498</u>	<u>\$ 59,765</u>

As noted earlier, net position may serve over time as a useful indicator of a governmental entity's financial position. At the close of 2017, total net position was \$62,498,462, an increase of \$2,733,950 from the prior year.

The largest portion of net position \$53,887,351, reflects the District's investment in capital assets (e.g., land, treatment plants, equipment, and infrastructure), less any related debt used to acquire those assets that remains outstanding. These capital assets are used to provide services to customers; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position \$8,611,111 may be used to meet the District's ongoing obligations to customers and creditors.

D. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District continues to adequately prepare for and respond to infrastructure funding needs throughout the water system. Total investment in capital assets at year-end 2017 amounted to \$57,771,551 (net of accumulated depreciation), a change of \$2,875,183 from the prior year. In 2017, the District's capital asset additions totaled \$4,670,456, including donated capital (pipe and hydrants) totaling \$358,535. Capital asset additions in 2017 included plant improvements at the White Lodge and Bridge Street facilities, well redevelopments, and ongoing pipeline projects throughout the System.

Debt Plan

The District's long-term debt obligations are a reflection of long-term capital budgets designed to aggressively address the infrastructure needs of the District in priority order. In 2017, capital expenditures (net of donated capital) totaled \$4.31 million. The District is currently planning to fund major plant improvements at its Bridge Street facility with SRF loans from the Commonwealth of Massachusetts. Long term, the District forecasts capital spending of more than \$23 million between 2018 and 2020.

The District has substantially reduced its principal debt service levels in the last twelve years, from \$15.1 million in 2005 to \$3.9 million at the end of 2017. The District continues to maintain its underlying debt rating (Moody's) of Aa2 for its general obligation debt.

As of December 31, 2017, the District has four series of general obligation bonds outstanding totaling \$3,884,200. Maturities by issue are as follows:

Series D through 2021	\$ 204,200
Series G through 2020	1,195,000
Series H through 2024	2,100,000
Series I through 2019	<u>385,000</u>
Total	<u>\$ 3,884,200</u>

E. OTHER POSTEMPLOYMENT BENEFITS (OPEB) GASB STATEMENTS 45, 74, AND 75

Governmental Accounting Standards Board Statement 45 (GASB 45) relates to the accounting and disclosure of Other Postemployment Benefits (OPEB) provided by the District to its current and retired employees. GASB 45 requires the disclosure of the actuarial valuation of the District's postemployment obligation and requires a financial liability to be recorded when the actuarial cost of benefits exceeds the amount paid by the District. In 2006, the District assumed direct responsibility for all personnel costs including OPEB. In April 2008, the District contracted with the Segal Company (actuarial consultants) to ensure the District's compliance with GASB 45. In March 2011, the District's Board of Commissioners approved a "closed-loop" OPEB plan which will provide post-retirement benefits for a specific group of 17 (both union and non-union) staff. As mandated by GASB 45, the District is required to update its actuarial valuation for OPEB a minimum of once every three years. In January 2017, Segal issued the updated OPEB actuarial valuation as of December 31, 2016. The financial data related to the District's 2016 OPEB valuation are incorporated in various sections of the 2017 audited financial statements. On May 13, 2014, the Board established an Irrevocable OPEB Trust. In opting to serve as trustees ex officio, the Board has authorized VALIC Financial Advisors, Inc. to serve as financial advisors to the Board in managing the OPEB irrevocable trust account. In May 2017, the Board of Trustees changed financial advisors. All OPEB funds now reside at Rockland Trust. During 2017, the District continued to fund the irrevocable trust account with an additional funding of \$125,000. As of December 31, 2017, the District has just one OPEB-eligible retiree.

Beginning in 2017, the District implemented the Governmental Accounting Standards Board (GASB) Statement 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, and in 2018 will be required to implement GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 74 applies when a trust fund has been established to fund future OPEB costs, and GASB 75 applies whenever OPEB benefits are offered. GASB has taken the position that OPEB is a form of compensation and the liability/expense should be recognized while the employee provides service to the District. GASB Statements 74 and 75 replace Statement 45, and require the full net OPEB liability and related expenses to be presented on District's accrual basis financial statements. Previously, the liability was recorded incrementally, generally increasing based on the degree to which the District funded the annual required contribution. It is expected that the implementation of these accounting standards will have a material impact on the District's financial statements, including the recording of a larger net OPEB liability and substantial new disclosures.

Additional information regarding OPEB costs can be found in Notes to Financial Statements, Notes 16 and 17.

F. NET PENSION LIABILITY GASB STATEMENT 68

Governmental Accounting Standards Board Statement 68 (GASB 68) was implemented by the District in 2015 (see Note 15). GASB 68 relates to the accounting and financial reporting for pensions, an amendment of GASB Statement No. 27 with respect to the employee's retirement funds. The District joined the Norfolk County Retirement System in July 2006. The accounting and disclosure for the District's proportionate share of the Norfolk County Retirement System is actuarially derived and reported in the District's financial statements. The December 31, 2017 net pension liability is \$4,530,112.

G. MASSACHUSETTS CLEAN WATER INTERIM LOAN NOTE

In 2017 the District was awarded an interest-free Massachusetts Clean Water Interim Loan Note for \$8,841,400, to be used for upgrades to the Bridge Street Treatment Plant. As of December 31, 2017, the District has drawn down \$1,007,010, leaving a Clean Water Loan Note receivable balance of \$7,834,390 to be drawn down as expenses are incurred.

REQUESTS FOR INFORMATION

This information is designed to provide a general overview of the District's finances for all those with an interest in those finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Dedham-Westwood Water District
50 Elm Street
Dedham, MA 02027-9137

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current:		
Cash	\$ 13,450,604	\$ 13,221,971
User fees, net of allowance for uncollectibles	1,034,461	1,348,843
Clean water loan note receivable	7,834,390	-
Other assets	<u>245,031</u>	<u>330,882</u>
Total current assets	22,564,486	14,901,696
Noncurrent:		
Bond issue costs	42,799	54,177
Capital assets:		
Land	1,799,332	1,799,332
Other capital assets, net of accumulated depreciation	<u>55,972,219</u>	<u>53,097,036</u>
Total noncurrent assets	57,814,350	54,950,545
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	<u>1,029,849</u>	<u>1,213,542</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	81,408,685	71,065,783
LIABILITIES		
Current:		
Accounts payable	571,827	431,801
Accrued expenses	516,639	617,608
Clean water loan note payable	8,841,400	-
Other current liabilities	14,335	1,733
Current portion of long-term liabilities:		
Bonds payable	974,190	984,190
Compensated absences	<u>46,082</u>	<u>46,798</u>
Total current liabilities	10,964,473	2,082,130
Long-term:		
Bonds payable, net of current portion	3,011,931	3,986,131
Accrued other post employment benefits	89,044	121,487
Net pension liability	<u>4,530,112</u>	<u>4,714,223</u>
Total long-term liabilities	7,631,087	8,821,841
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	<u>314,663</u>	<u>397,300</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	18,910,223	11,301,271
NET POSITION		
Net investment in capital assets	53,887,351	50,058,353
Unrestricted	<u>8,611,111</u>	<u>9,706,159</u>
TOTAL NET POSITION	\$ <u>62,498,462</u>	\$ <u>59,764,512</u>

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

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
User charges	\$ 9,332,492	\$ 9,474,568
Miscellaneous	469,921	681,441
	<hr/>	<hr/>
Total Operating Revenues	9,802,413	10,156,009
 Operating Expenses:		
Direct labor	2,513,011	2,519,118
Depreciation	1,777,216	1,686,362
Other operating costs	868,575	938,321
Pension expense	460,968	515,723
Fuel and power	551,542	526,501
Repairs and maintenance	392,482	384,766
Health care	412,638	345,526
General insurance	138,717	152,707
Chemicals	107,443	115,681
Other employee benefits	160,854	104,747
Transportation, heat, electric	71,861	55,686
Payroll tax	49,964	49,268
Temporary help	44,480	44,379
Water conservation	19,864	40,408
	<hr/>	<hr/>
Total Operating Expenses	7,569,615	7,479,193
Operating Income	2,232,798	2,676,816
 Other Income and Expenses:		
Contributions revenue	358,535	371,970
Lease revenue	121,938	118,997
Interest income	118,029	94,424
Interest expense	(97,350)	(137,595)
	<hr/>	<hr/>
Total Other Income and Expenses	501,152	447,796
Net Income	2,733,950	3,124,612
Net Position at Beginning of Year	<hr/>	<hr/>
	59,764,512	56,639,900
Net Position at End of Year	<hr/> <hr/>	<hr/> <hr/>
	\$ 62,498,462	\$ 59,764,512

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

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 10,215,248	\$ 10,949,862
Payments to vendors and employees	<u>(5,869,556)</u>	<u>(6,071,191)</u>
Net Cash Provided By Operating Activities	4,345,692	4,878,671
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Contribution revenue	358,535	371,970
Clean water loan note proceeds	1,007,010	-
Acquisition and construction of capital assets, net of disposition	(4,635,384)	(3,449,718)
Principal payments on bonds payable	(956,050)	(1,641,050)
Amortization of debt related costs	(16,772)	(16,772)
Interest expense	(97,350)	(137,595)
Other	<u>(17,015)</u>	<u>-</u>
Net Cash Used For Capital and Related Financing Activities	(4,357,026)	(4,873,165)
<u>Cash Flows From Investing Activities:</u>		
Lease revenue	121,938	118,997
Investment income	<u>118,029</u>	<u>94,424</u>
Net Cash Provided by Investing Activities	<u>239,967</u>	<u>213,421</u>
Net Change in Cash and Cash Equivalents	228,633	218,927
Cash and Cash Equivalents, Beginning of Year	<u>13,221,971</u>	<u>13,003,044</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,450,604</u>	<u>\$ 13,221,971</u>
<u>Reconciliation of Operating Income to Net Cash:</u>		
Operating income	\$ 2,232,798	\$ 2,676,816
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	1,777,216	1,686,362
User Fees	314,382	534,430
Other assets	85,851	284,207
Deferred outflows	183,693	(809,244)
Accounts payable	15,026	142,360
Accrued expenses	24,031	(53,799)
Other liabilities	12,602	(24,784)
Compensated absences	(716)	2,138
Accrued other post employment benefits	(32,443)	(194,893)
Deferred inflows	(82,637)	397,300
Net pension liability	<u>(184,111)</u>	<u>237,778</u>
Net Cash Provided By Operating Activities	<u>\$ 4,345,692</u>	<u>\$ 4,878,671</u>

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

DEDHAM-WESTWOOD WATER DISTRICT
 FIDUCIARY FUNDS
 COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION
 DECEMBER 31, 2017 AND 2016

	Other Post-Employment Benefits Trust Fund	
	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Investments	\$ 663,068	\$ 358,720
Accounts receivable	125,000	250,000
	\$ 788,068	\$ 608,720
 <u>NET POSITION</u>		
Total net position held in trust	\$ 788,068	\$ 608,720

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

DEDHAM-WESTWOOD WATER DISTRICT

FIDUCIARY FUNDS

COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Other Post-Employment Benefits Trust Fund</u>	
	<u>2017</u> *	<u>2016</u>
Additions:		
Contributions	\$ 149,767	\$ 250,000
Investment income (loss)	<u>54,348</u>	<u>21,964</u>
Total additions	204,115	271,964
Deductions:		
Benefit payments	<u>24,767</u>	<u>-</u>
Total deductions	<u>24,767</u>	<u>-</u>
Net increase	179,348	271,964
Net position:		
Beginning of year	<u>608,720</u>	<u>336,756</u>
End of year	<u>\$ 788,068</u>	<u>\$ 608,720</u>

* Reported in compliance with GASB 74

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

DEDHAM-WESTWOOD WATER DISTRICT

Notes to Financial Statements

1. Reporting Entity

The Dedham-Westwood Water District (the District) is a government instrumentality created by Chapter 193 of the Acts of 1985 of the Commonwealth of Massachusetts (the Enabling Act) for the purpose of supplying the Towns of Dedham and Westwood, Massachusetts, with water and providing water treatment works and facilities. Pursuant to the Enabling Act, the District was organized on July 24, 1985. The Enabling Act requires that a six-member Board of Water Commissioners exercise the management and control of the District. The Boards of Selectmen from the Towns of Dedham and Westwood each select three residents from their respective towns to serve as water commissioners.

2. Summary of Significant Accounting Policies

The accounting policies of the District conform to Generally Accepted Accounting Principles in the United States of America (GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the District:

A. Basis of Presentation

The operations of the District are accounted for as an enterprise fund. The District's financial statements are reported on an accrual basis of accounting as specified by the GASB requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognizes expenses when the related liability is incurred, regardless of when the related cash flow takes place.

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2016.

B. Operating Revenue and Expense

Operating revenue consists of billings for metered water supplied to residential, commercial, and industrial entities; water system access fees; sales to public authorities; water property; and other water related services. The District bills users of the system on a cycle basis and unbilled revenue is accrued for as of December 31, 2017. The District maintains an ongoing capacity to collect on its customer receivables via the strength of its non-payment shutoff policy.

Therefore, District customer accounts deemed uncollectible are typically negligible on an annual basis. All other revenue is considered nonoperating.

Operating expenses include costs to provide water services.

C. Inventories

Inventories are valued at cost using the weighted average cost method and are included in Other Assets (Note 7).

D. Capital Assets

Capital assets are stated at historical cost and donated assets are recorded at fair value at the date of donation. Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Major betterments or renewals are capitalized and depreciated over their estimated useful lives. The District capitalizes interest costs as part of constructing transmission and distribution facilities; however, the District did not have any material construction in progress or capitalized interest costs in 2017.

Estimated useful lives used in computing depreciation are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	5 - 60 years
Machinery and equipment	5 - 25 years
Infrastructure	5 - 75 years

E. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred. A liability for these amounts is reported in the Financial Statements.

F. Net Position

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The remaining net position is reported as unrestricted.

G. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows/inflows and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Unrestricted Net Position

Included in the unrestricted net position of \$8,661,111 at December 31, 2017 is a board-designated stabilization fund of \$1,800,000.

I. Investments

Investments are reported at fair value.

The District categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). 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. All of the District's investments are classified as Level 1.

3. Cash

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the District's deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." As of December 31, 2017, none of the District's bank balance of \$13,582,774 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the District's name. The difference between the carrying amount and the bank balance represents reconciling items such as deposits in transit and outstanding checks, which have not been processed by the bank at December 31, 2017.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the District's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

The District's investments consist entirely of mutual funds, which are exempt from credit risk reporting.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The District's investments are subject to custodial credit risk exposure, however, the District will engage only those institutions with proven financial strength, capital adequacy, and overall affirmative reputation in the municipal industry.

C. Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer, however, it does not have any investment in one issuer (other than mutual funds) that is greater than 5% of total investments.

D. Interest Rate Risk

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

All the District's investments are invested in various mutual funds which do not have specific maturities and are therefore not exposed to interest rate risk.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The District does not have investments subject to foreign currency risk.

5. User Fees Receivable

Accounts receivable consists of the following:

	<u>2017</u>	<u>2016</u>
Customer Accounts:		
Billed	\$ 795,490	\$ 1,110,614
Unbilled	<u>238,971</u>	<u>238,229</u>
Total receivables	<u>\$ 1,034,461</u>	<u>\$ 1,348,843</u>

Management evaluates the collectability of receivables and has determined an allowance is not required.

6. Clean Water Loan Note Receivable

This balance represents the remaining amount to be drawn down on the Massachusetts Clean Water Interim Loan Note (see Note 12).

7. Other Assets

Other assets consist of the following:

	<u>2017</u>	<u>2016</u>
Inventory	\$ 105,754	\$ 99,270
Prepaid expenses	84,541	64,791
Miscellaneous accounts receivable	54,536	166,621
Other	<u>200</u>	<u>200</u>
Total other assets	<u>\$ 245,031</u>	<u>\$ 330,882</u>

8. Capital Assets

The following is a summary of the 2017 activity in capital assets (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,605	\$ 925	\$ -	\$ 22,530
Machinery, equipment, and furnishings	15,114	712	(8)	15,818
Infrastructure	<u>48,406</u>	<u>3,033</u>	<u>(27)</u>	<u>51,412</u>
Total capital assets, being depreciated	85,125	4,670	(35)	89,760
Less accumulated depreciation for:				
Buildings and improvements	(7,284)	(440)	-	(7,724)
Machinery, equipment, and furnishings	(10,992)	(608)		(11,600)
Infrastructure	<u>(13,752)</u>	<u>(728)</u>	<u>17</u>	<u>(14,463)</u>
Total accumulated depreciation	<u>(32,028)</u>	<u>(1,776)</u>	<u>17</u>	<u>(33,787)</u>
Total capital assets, being depreciated, net	53,097	2,894	(18)	55,973
Capital assets, not being depreciated:				
Land	<u>1,799</u>	<u>-</u>	<u>-</u>	<u>1,799</u>
Total capital assets, not being depreciated	<u>1,799</u>	<u>-</u>	<u>-</u>	<u>1,799</u>
Governmental activities capital assets, net	<u>\$ 54,896</u>	<u>\$ 2,894</u>	<u>\$ (18)</u>	<u>\$ 57,772</u>

Included in the current year additions is \$358,535 of donated assets including water mains and hydrants for various capital projects.

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the District that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 15.

10. Accounts Payable

Accounts payable represents amounts due to vendors for goods and services provided as of year-end, which were paid in the subsequent year.

11. Accrued Expenses

Accrued expenses consist of the following:

	<u>2017</u>	<u>2016</u>
Accrued purchased water - MWRA	\$ 298,183	\$ 406,420
Accrued payroll	103,396	94,762
Contract retainage	51,208	40,640
Other	35,202	28,031
Accrued unbilled items	16,305	32,323
Accrued interest	<u>12,345</u>	<u>15,432</u>
Total accrued expenses	<u>\$ 516,639</u>	<u>\$ 617,608</u>

12. Clean Water Loan Note Payable

In 2017 the District was awarded an interest-free Massachusetts Clean Water Interim Loan Note for \$8,841,400, to be used for upgrades to the Bridge Street Treatment Plant. As of December 31, 2017, the District has drawn down \$1,007,010, leaving a Clean Water Loan Note receivable balance of \$7,834,390 to be drawn down as expenses are incurred.

<u>Purpose</u>	<u>Date of Issue</u>	<u>Balance at 12/31/17</u>
Clean Water Loan Note Payable	07/01/17	\$ <u>8,841,400</u>
Total		\$ <u>8,841,400</u>

The following summarizes activity in notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Clean Water Loan Note Payable	\$ -	\$ 8,841,400	\$ -	\$ 8,841,400
Total	\$ -	\$ 8,841,400	\$ -	\$ 8,841,400

13. Bonds Payable

A. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities. General obligation bonds currently outstanding are as follows:

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/17</u>
General obligation series D	2021	0.00%	\$ 204,200
General obligation series G	2020	2.00 - 3.25%	1,195,000
General obligation series H	2024	2.00 - 2.50%	2,100,000
General obligation series I	2019	2.00 - 3.00%	385,000
Total Business-Type Activities:			\$ <u>3,884,200</u>

B. Future Debt Service

The annual payments, which are made semi-annually, to retire all general obligation long-term debt outstanding as of December 31, 2017 are as follows:

<u>Business-Type Activities:</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 946,050	\$ 80,413	\$ 1,026,463
2019	941,050	61,588	1,002,638
2020	746,050	45,088	791,138
2021	351,050	26,250	377,300
2022	300,000	20,250	320,250
2023-2024	<u>600,000</u>	<u>21,750</u>	<u>621,750</u>
Total	\$ <u>3,884,200</u>	\$ <u>255,339</u>	\$ <u>4,139,539</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Total Balance 1/1/17	Additions	Reductions	Total Balance 12/31/17	Less Current Portion	Equals Long-Term Portion 12/31/17
<u>Business-Type Activities</u>						
General obligation bonds	\$ 4,840,250	\$ -	\$ (956,050)	\$ 3,884,200	\$ (946,050)	\$ 2,938,150
Bond premium	130,071	-	(28,150)	101,921	(28,140)	73,781
Subtotal	4,970,321	-	(984,200)	3,986,121	(974,190)	3,011,931
Other:						
Compensated absence	46,798		(716)	46,082	(46,082)	-
Accrued other post-employment benefits	121,487	117,324	(149,767)	89,044	-	89,044
Net pension liability	4,714,223	-	(184,111)	4,530,112	-	4,530,112
Subtotal - other	4,882,508	117,324	(334,594)	4,665,238	(46,082)	4,619,156
Totals	\$ <u>9,852,829</u>	\$ <u>117,324</u>	\$ <u>(1,318,794)</u>	\$ <u>8,651,359</u>	\$ <u>(1,020,272)</u>	\$ <u>7,631,087</u>

D. Refundings

On August 18, 2010, the District sold \$4,090,000 general obligation bonds. \$1,040,000 of this issue was to current refund the outstanding balance of the \$2,545,000 General Obligation Bonds of the District originally dated October 15, 2000 and maturing October 15, 2011 through 2020. The refunding bonds were dated September 1, 2010 and will mature on September 1, 2020. The balance outstanding as of December 31, 2017 was \$280,000.

On December 4, 2014, the District sold \$985,000 General Obligation Refunding Bonds, Series B. This issue was to current refund the outstanding balance of the \$3,000,000 General Obligation Bonds of the District originally dated June 15, 2004 and maturing June 15, 2015 through 2019. The refunding bonds were dated December 15, 2014 and will mature on June 15, 2019. The balance outstanding as of December 31, 2017 was \$385,000.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the District that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The District reports deferred inflows of resources that are attributable to changes in the net pension liability. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 15.

15. Retirement System

The District follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the District are members of the Norfolk County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 480 Neponset Street, Building #15, Canton, Massachusetts 02021.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years' creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The District's contribution to the System for the year ended December 31, 2017 was \$484,009.

B. Summary of Significant Accounting Policies

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

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported a liability of \$4,530,112 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The total pension liability is equal to the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement 68. The net pension liability equals the total pension liability less the Norfolk County Retirement Systems’ plan net position at December 31, 2016. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the District’s proportion was .86780 percent.

For the year ended December 31, 2017, the District recognized pension expense of \$460,968. In addition, the District reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 71,024	\$ -
Changes of assumptions	-	295,414
Net difference between projected and actual earnings on pension plan investments	413,985	-
Changes in proportion and differences between contributions and proportionate share of contributions	817	19,249
Contributions subsequent to the measurement date	<u>544,023</u>	<u>-</u>
Total	<u>\$ 1,029,849</u>	<u>\$ 314,663</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ 616,698
2019	72,675
2020	43,213
2021	<u>(17,400)</u>
Total	\$ <u>715,186</u>

D. Actuarial Assumptions:

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4%
Salary increases	3.5%-5.5%
Cost of living increases	3% of the first \$15,000
Investment rate of return	8%

Mortality rates were based on the RP-2014 Blue Collar Mortality, adjusted with scale MP-2014.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	32.00%	8.60%
Fixed income	19.00%	4.60%
International equity	17.50%	8.60%
Real estate	9.00%	5.10%
Hedge funds	9.00%	13.10%
Private equity	8.50%	10.30%
Real assets	<u>5.00%</u>	7.50%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.00%) or 1 percentage-point higher (9.00%) than the current rate:

<u>Year Ended</u>	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
2017	\$ 5,731,734	\$ 4,530,112	\$ 3,500,072

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

16. Other Post-Employment Benefits – OPEB (GASB 45)

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses and Changes in Fund Net Position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the District provides post-employment healthcare for a limited number of retired employees on a “closed loop” basis through the District’s plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of December 31, 2016, the actuarial valuation date, 18 active employees met the eligibility requirements. As of December 31, 2017, the District had 16 active employees that met eligibility requirements and 2 retirees, as reflected in the December 31, 2016 actuarial report. The plan does not issue a separate financial report.

B. Benefits Provided

The District provides medical and prescription drug insurance to retirees and their covered dependents. Those specific active employees who retire from the District and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the District. The District contributes the remainder of the health plan costs primarily on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The District’s 2017 annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the District’s annual OPEB cost for the year ending December 31, 2017, the amount actually contributed to the plan, and the change in the District’s net OPEB obligation based on an actuarial valuation as of December 31, 2016.

Annual Required Contribution (ARC)	\$ 142,358
Interest on net OPEB obligation	7,897
Adjustment to ARC	<u>(32,931)</u>
Annual OPEB cost	117,324
Contributions made	<u>(149,767)</u>
Increase (decrease) in net OPEB obligation	(32,443)
Net OPEB obligation - beginning of year	<u>121,487</u>
Net OPEB obligation - end of year	<u>\$ 89,044</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 117,324	128%	\$ 89,044
2016	\$ 89,555	318%	\$ 121,487
2015	\$ 99,169	149%	\$ 316,380
2014	\$ 107,174	125%	\$ 364,600
2013	\$ 157,032	75%	\$ 391,160
2012	\$ 187,335	3%	\$ 351,826

E. Funded Status and Funding Progress

The funded status of the plan as of December 31, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 884,205
Less actuarial value of plan assets	<u>(608,720)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 275,485</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>68.84%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of OPEB Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the District and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the District has not advance funded its obligation. The actuarial assumptions included a 6.5% investment rate of return and an initial annual healthcare cost trend rate of 6%, which decreases to a 5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 23 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

17. Other Post-Employment Benefits – OPEB (GASB 74)

In May 2014, the District established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At December 31, 2017, investments consisted of equity and fixed income mutual funds. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 985,966
Plan fiduciary net position	<u>(788,068)</u>
Net OPEB liability	<u>\$ 197,898</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 80%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.0 percent
Investment rate of return	6.5

Mortality rates were based on RP-2000 Employee Mortality Table projected generationally with Scale BB2D from 2009 for pre-retirement members, RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2009 for healthy members, and RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015 for disabled members.

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

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	6.44%
International developed markets equity	7.40%
International emerging markets equity	9.42%
Core fixed income	2.02%
High-yield fixed income	4.43%
Real estate	5.00%
Commodities	4.43%
Hedge fund, GTAA, Risk parity	3.75%
Private equity	10.47%

Discount rate. The discount rate used to measure the total OPEB liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. 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.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current discount rate:

1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
\$ 343,299	\$ 197,898	\$ 78,659

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.87 percent decreasing to 7.87 percent) or

1-percentage-point higher (8.87 percent increasing to 9.87 percent) than the current healthcare cost trend rates:

1% Decrease <u>(7.87%)</u>	Healthcare Cost Trend Rates <u>(8.87%)</u>	1% Increase <u>(9.87%)</u>
\$ 51,776	\$ 197,898	\$ 384,162

18. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past five years.

19. Lease Revenue

The District has entered into operating leases with certain cellular telecommunication companies whereby these companies use District property for cellular towers. The District currently has three active cellular leases with Sprint (\$62,936), Verizon (\$31,026), and Cingular (\$27,976), each with annual escalators of 3%. Although the lease agreements are cancellable by either party, the District anticipates these revenues to continue in the future.

20. Parking Rental Agreement

In July 2014, the District entered into an agreement with the trustees of Helen Hultman Living Trust of Norwood, Massachusetts, to rent space for the purpose of storing clean fill and gravel, and to park and store vehicles or equipment, permitted by applicable laws and regulations. Monthly rental expense in 2016 to the District was \$1,150 per month. The agreement is cancellable by either party with one month of notice. In April 2016, a new rental agreement was negotiated with the same trustees for another parcel of land (smaller lot size) at the new District cost of \$850 per month, effective May 1, 2016.

21. Subsequent Events

Events and transactions from January 1, 2018 through June 21, 2018, the date the financial statements were issued, have been evaluated by management for disclosure. Management has determined that there were no material events that would require disclosure in the District's financial statements through this date.

22. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the District beginning with its year ending December 31, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

DEDHAM-WESTWOOD WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

DECEMBER 31, 2017
(Unaudited)

Norfolk County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
December 31, 2017	December 31, 2016	0.8678%	\$4,530,112	\$ 2,419,805	187.21%	61.6%
December 31, 2016	December 31, 2015	0.8678%	\$4,714,223	\$ 2,363,328	199.47%	58.6%
December 31, 2015	December 31, 2014	0.8631%	\$4,476,445	\$ 2,129,557	210.21%	60.1%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**DEDHAM-WESTWOOD WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)**

**DECEMBER 31, 2017
(Unaudited)**

Norfolk County Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2017	\$ 484,009	\$ (484,009)	\$ -	\$ 2,419,805	20.00%
December 31, 2016	\$ 438,887	\$ (438,887)	\$ -	\$ 2,363,328	18.57%
December 31, 2015	\$ 407,481	\$ (407,481)	\$ -	\$ 2,129,557	19.13%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**DEDHAM-WESTWOOD WATER DISTRICT
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)**

**December 31, 2017
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
12/31/16	\$ 608,720	\$ 884,205	\$ 275,485	69%
12/31/13	\$ 100,000	\$ 626,450	\$ 526,450	16%
12/31/10	\$ -	\$ 937,400	\$ 937,400	0%

See Independent Auditors' Report.

**DEDHAM-WESTWOOD WATER DISTRICT
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 65,584
Interest on unfunded liability - time value of \$	60,944
Benefit payments, including refunds of member contributions	<u>(24,767)</u>
Net change in total OPEB liability	101,761
Total OPEB liability - beginning	<u>884,205</u>
Total OPEB liability - ending (a)	<u>\$ 985,966</u>
 Plan fiduciary net position	
Contributions - employer	\$ 149,767
Net investment income	54,348
Benefit payments, including refunds of member contributions	<u>(24,767)</u>
Net change in plan fiduciary net position	179,348
Plan fiduciary net position - beginning	<u>608,720</u>
Plan fiduciary net position - ending (b)	<u>\$ 788,068</u>
 Net OPEB liability (asset) - ending (a-b)	<u>\$ 197,898</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the District's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**DEDHAM-WESTWOOD WATER DISTRICT
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 985,966
Plan fiduciary net position	<u>788,068</u>
Net OPEB liability (asset)	<u>\$ 197,898</u>
Plan fiduciary net position as a percentage of the total OPEB liability	79.93%
Covered payroll	\$ 1,065,498
Participating employer net OPEB liability (asset) as a percentage of covered payroll	18.57%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 142,358
Contributions in relation to the actuarially determined contribution	<u>149,767</u>
Contribution deficiency (excess)	<u>\$ (7,409)</u>
Covered payroll	\$ 1,065,498
Contributions as a percentage of covered payroll	14.06%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	5.34%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to District's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.