

**TOWN OF HOLLISTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information

Year Ended June 30, 2015

# **TOWN OF HOLLISTON, MASSACHUSETTS**

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Holliston, 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 Holliston, Massachusetts, (the "Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Restatement

We audited the Town's basic financial statements for the year ended June 30, 2014, for which we issued an unmodified opinion dated January 20, 2015. As discussed in Note V to the financial statements, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — An Amendment of GASB Statement No. 27*. In connection with the adoption of this accounting standard, previously reported total net position in the governmental activities and business-type activities in the Statement of Net Position were restated.

## Other Matters

### *Required Supplementary Information*

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 25, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Roselli, Clark and Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
December 25, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Holliston, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### **Financial Highlights**

- The Town adopted an accounting standard relative to pension obligations in fiscal year 2015. As a result, the Town restated its June 30, 2014 net position in its statement of net position to include approximately \$20.3 million and \$0.9 million in net pension liabilities in its governmental activities and business-type activities, respectively.
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$49.6 million (*total net position*). The Town's total net position increased by approximately \$4.2 million in 2015 as actual expenses were under budget and revenues exceeded budget.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities. These deficits are due primarily to the recording of liabilities associated with other postemployment benefits, or OPEB, and net pension liabilities, which totaled over \$28.7 million at June 30, 2015 in the aggregate. These liabilities are applied to the Town's unrestricted net position and represent actuarial estimates of future postemployment benefits payable by the Town for postemployment health and welfare benefits and pensions.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$13.3 million, which is over \$3.3 million lower than the prior year. In 2015, the Town transferred nearly \$4.8 million from its general fund and other Nonmajor funds to a newly established OPEB trust fund, which was the primary cause for this decrease. Of the ending fund balance, nearly \$5.1 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately \$5.7 million, which represents over 9.2% percent of the total fiscal year 2015 general fund expenditures. The June 30, 2015 total general fund balance of nearly \$7.5 million was approximately 12.2% of the total fiscal year 2015 general fund expenditures.
- The Town's total long-term debt obligations decreased by over \$4.5 million during the current fiscal year. The decrease in long-term debt was due to the normal, scheduled repayment on general obligation and notes payable.

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include its water and golf operations.

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

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

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

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the community preservation fund and capital reserve fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

**Proprietary Funds.** *Proprietary funds* are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *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 water and golf 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 statement 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 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.

### **Government-Wide Financial Analysis**

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$49.6 million (*total net position*). The Town's total net position increased by approximately \$4.2 million in 2015 as actual expenses were under budget and revenues exceeded budget.

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

An additional portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is classified as *unrestricted net position* and is a deficit balance at both June 30, 2015 and 2014. The deficit balance in unrestricted net position in the governmental activities is primarily the result of the accumulated OPEB obligation and the Town's net

pension liability, which totaled over \$28.7 million and nearly \$1.1 million at June 30, 2015 in the governmental and business-type activities, respectively.

The condensed statement of net position is as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2015	2014 (a)	2015	2014 (a)	2015	2014 (a)
<b><u>Assets</u></b>						
Current and other assets	\$ 30,134,392	\$ 34,685,906	\$ 2,497,883	\$ 2,054,613	\$ 32,632,275	\$ 36,740,519
Capital assets, net	68,891,970	68,884,041	17,698,664	18,209,746	86,590,634	87,093,787
Total Assets	99,026,362	103,569,947	20,196,547	20,264,359	119,222,909	123,834,306
<b><u>Deferred Outflows of Resources</u></b>						
Pensions	68,562	-	3,118	-	71,680	-
<b><u>Liabilities</u></b>						
Long-term liabilities	57,410,588	64,805,725	8,784,427	6,850,838	66,195,015	71,656,563
Other liabilities	3,389,302	3,959,504	102,357	2,816,008	3,491,659	6,775,512
Total Liabilities	60,799,890	68,765,229	8,886,784	9,666,846	69,686,674	78,432,075
<b><u>Deferred Inflows of Resources</u></b>	-	-	-	-	-	-
<b><u>Net Position</u></b>						
Net investment in capital assets	51,510,306	48,726,882	9,998,464	9,675,546	61,508,770	58,402,428
Restricted	6,315,314	6,460,799	-	-	6,315,314	6,460,799
Unrestricted	(19,530,586)	(20,382,963)	1,314,417	921,967	(18,216,169)	(19,460,996)
Total Net Position	\$ 38,295,034	\$ 34,804,718	\$ 11,312,881	\$ 10,597,513	\$ 49,607,915	\$ 45,402,231

(a) As restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**Governmental Activities.** Property taxes made up approximately 61.8% and 59.7% of total governmental activities revenues in fiscal years 2015 and 2014, respectively. The gross dollar increase in property taxes was consistent with proposition 2 ½ limitations. Operating grants represented approximately 23.3% and 26.5% of total governmental activities revenues in fiscal years 2015 and 2014, respectively. No other revenues were greater than 10% of total governmental activities revenues in fiscal years 2015 or 2014.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 75.2% and 77.0% of total fiscal year 2015 and 2014 governmental activities expenses, respectively. No other expense categories were greater than 10% of total expenses in fiscal years 2015 or 2014.

**Business-type Activities.** The Town reports the activities of its water and golf enterprise funds as business-type activities. Water operations experienced an approximate 4.4% increase in revenues in 2015, which was consistent with an approximate 7% rate increase. Water operating expenses were consistent year-over-year. In addition, golf revenues and expenses were consistent year-over-year.



The condensed statement of activities is as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 5,555,074	\$ 4,994,345	\$ 3,088,495	\$ 2,959,274	\$ 8,643,569	\$ 7,953,619
Operating grants and contributions	15,422,565	17,553,965	-	-	15,422,565	17,553,965
Capital grants and contributions	360,010	369,135	-	-	360,010	369,135
General revenues:						
Property taxes	40,960,863	39,612,810	-	-	40,960,863	39,612,810
Intergovernmental	1,657,760	1,685,644	-	-	1,657,760	1,685,644
Other	2,361,470	2,134,571	442	378	2,361,912	2,134,949
Total revenues	<u>66,317,742</u>	<u>66,350,470</u>	<u>3,088,937</u>	<u>2,959,652</u>	<u>69,406,679</u>	<u>69,310,122</u>
<b>Expenses:</b>						
General government	2,562,175	2,670,974	-	-	2,562,175	2,670,974
Public safety	5,861,454	5,687,825	-	-	5,861,454	5,687,825
Education	47,265,127	49,477,367	-	-	47,265,127	49,477,367
Public works	3,508,735	3,227,124	-	-	3,508,735	3,227,124
Health and human services	1,048,045	731,102	-	-	1,048,045	731,102
Culture and recreation	1,336,372	1,052,125	-	-	1,336,372	1,052,125
Debt service	1,297,676	1,443,745	-	-	1,297,676	1,443,745
Water	-	-	2,254,851	2,183,273	2,254,851	2,183,273
Golf	-	-	66,560	74,148	66,560	74,148
Total expenses	<u>62,879,584</u>	<u>64,290,262</u>	<u>2,321,411</u>	<u>2,257,421</u>	<u>65,200,995</u>	<u>66,547,683</u>
Increase in net position	3,438,158	2,060,208	767,526	702,231	4,205,684	2,762,439
Transfers	52,158	54,000	(52,158)	(54,000)	-	-
Change in net position	3,490,316	2,114,208	715,368	648,231	4,205,684	2,762,439
Net position - beginning of year	34,804,718	52,950,449	10,597,513	10,870,697	45,402,231	63,821,146
Restatement (a)	-	(20,259,939)	-	(921,415)	-	(21,181,354)
Net position - end of year	<u>\$ 38,295,034</u>	<u>\$ 34,804,718</u>	<u>\$ 11,312,881</u>	<u>\$ 10,597,513</u>	<u>\$ 49,607,915</u>	<u>\$ 45,402,231</u>

(a) The Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015, which resulted in a restatement of its June 30, 2014 reported net positions.

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

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$13.3 million, which was over \$3.3 million lower than the prior year. In 2015, the Town transferred nearly \$4.8 million from its general fund and

other Nonmajor funds to a newly established OPEB trust fund, which was the primary cause for this decrease. Of the ending fund balance, nearly \$5.1 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was approximately \$5.7 million, while total fund balance was nearly \$7.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 9.2% of total general fund expenditures, while total fund balance represents approximately 12.2% of that same amount.

The Town maintains a community preservation fund, which is used to account for specific activities related to the purchase of land parcels within the Town for community preservation purposes as well as historical preservation. The ending fund balance, which is classified as restricted, approximates \$2.7 million at June 30, 2015.

The capital reserve fund is used to accumulate financial resources that may through a Town Meeting vote be used to supplement future capital projects. The ending fund balance, which is classified as committed, approximates \$0.5 million at June 30, 2015.

The remainder of the governmental funds are either (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$22,000; or (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$3.2 million; or (3) unassigned in the amount of approximately \$(0.6) million, which is the deficit fund balance in the Town's special revenue funds. The Town expects that these deficits will be eliminated in fiscal year 2016 from subsequent grant awards and collections.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water and golf enterprise funds were approximately \$11.3 million in the aggregate.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were approximately \$1.9 million, primarily due to school capital articles and transfers out. A budget to actual schedule for the general fund has been provided as required supplementary information.

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

**Capital Assets.** As of June 30, 2015, the Town's investment in capital assets for its governmental and business-type activities approximated \$68.9 million and \$17.7 million, respectively. Governmental net capital assets remained consistent year-over-year while business-type net capital assets decreased by over \$0.5 million in 2015. Capital asset additions from governmental activities in 2015 were fairly consistent with 2015 depreciation expense. Conversely, 2015 depreciation expense of nearly \$0.6 million exceeded capital additions in the business-type activities, which were entirely incurred in the water fund, of less than \$0.1 million. Additional information on the Town capital assets can be found in the notes to the basic financial statements.

**Long-term Debt.** At the end of the current fiscal year, the Town had total long-term general obligation debt outstanding of approximately \$35.6 million, which represents a decrease of approximately \$4.5 million from the prior year. Total debt was comprised of nearly \$28.4 million in general obligation bonds

of governmental activities and approximately \$7.7 million in general obligation bonds of business-type activities.

As of June 30, 2015, the Town expects to receive reimbursements from the Massachusetts School Business Authority for the repayment of long-term debt principal of approximately \$11.0 million and future interest in the amount of approximately \$2.2 million. These reimbursements are expected to be received in regular installments through fiscal year 2026.

In October 2013, Standard & Poor's Ratings Services raised the town's credit rating from "AA-" to "AA+."

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$104.7 million, which is significantly in excess of the Town's outstanding general obligation debt. The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town's debt can be found in the notes to the basic financial statements.

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

- The Bureau of Labor Statistics of the U.S. Department of Labor reported a 4.1% unemployment rate for Middlesex County for June 2015, which was slightly better than the state-wide unemployment rate of 4.7%. The Town's unemployment rate was 4.4% for June 2015. While there are signs of economic improvement in the labor markets, there continues to be great volatility.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2015 were set to approximate 88% of the entire levy. The Town relies to a moderate but lesser extent on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2.5% of the previous year tax levy.
- The Town's housing market has improved greatly over the past several years. Housing prices have steadily risen and housing inventory is at a premium within the Town.
- Inflationary trends in the region are consistent with state and national indices.

All of these factors were considered in preparing the Town's budget for the 2016 fiscal year, which was adopted at Town Meeting in May 2015. The tax rate, which reflects the adopted budget, was set November 20, 2015.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, 703 Washington Street, Holliston, MA 01746.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,233,004	\$ 1,477,481	\$ 17,710,485
Investments	15,006	-	15,006
Receivables, net of allowance for uncollectible accounts:			
Property taxes	1,680,055	-	1,680,055
User charges, fees and other	184,139	1,020,402	1,204,541
Motor vehicle excise taxes	143,903	-	143,903
Intergovernmental	11,865,250	-	11,865,250
Other current assets	13,035	-	13,035
Land	4,977,175	1,000,000	5,977,175
Depreciable capital assets, net of accumulated depreciation	63,914,795	16,698,664	80,613,459
 Total Assets	 99,026,362	 20,196,547	 119,222,909
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	68,562	3,118	71,680
<b>LIABILITIES</b>			
Current liabilities:			
Warrants and accounts payable	1,870,343	52,229	1,922,572
Other liabilities	1,144,632	3,492	1,148,124
Interest expense payable	194,548	46,636	241,184
Unearned revenue	179,779	-	179,779
Noncurrent liabilities:			
Due in one year or less	4,154,799	681,128	4,835,927
Due in more than one year	53,255,789	8,103,299	61,359,088
 Total Liabilities	 60,799,890	 8,886,784	 69,686,674
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-
<b>NET POSITION</b>			
Net investment in capital assets	51,510,306	9,998,464	61,508,770
Restricted for:			
Community preservation	2,657,899	-	2,657,899
Perpetual funds	347,684	-	347,684
Debt service	157,085	-	157,085
Other purposes	3,152,646	-	3,152,646
Unrestricted	(19,530,586)	1,314,417	(18,216,169)
 Total Net Position	 \$ 38,295,034	 \$ 11,312,881	 \$ 49,607,915

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>							
General government	\$ 2,562,175	\$ 570,208	\$ 19,150	\$ -	\$ (1,972,817)		\$ (1,972,817)
Public safety	5,861,454	857,303	105,217	-	(4,898,934)		(4,898,934)
Education	47,265,127	3,313,897	13,981,406	-	(29,969,824)		(29,969,824)
Public works	3,508,735	225,850	-	360,010	(2,922,875)		(2,922,875)
Health and human services	1,048,045	209,783	29,733	-	(808,529)		(808,529)
Culture and recreation	1,336,372	378,033	59,809	-	(898,530)		(898,530)
Interest expense	1,297,676	-	1,227,250	-	(70,426)		(70,426)
Total Governmental Activities	62,879,584	5,555,074	15,422,565	360,010	(41,541,935)		(41,541,935)
<u>Business-type Activities:</u>							
Water	2,254,851	2,913,553	-	-	-	\$ 658,702	658,702
Golf	66,560	174,942	-	-	-	108,382	108,382
Total Primary Government	\$ 65,200,995	\$ 8,643,569	\$ 15,422,565	\$ 360,010	(41,541,935)	767,084	(40,774,851)
<u>General Revenues:</u>							
					40,960,863	-	40,960,863
					2,108,214	-	2,108,214
					209,102	-	209,102
					1,657,760	-	1,657,760
					44,154	442	44,596
					52,158	(52,158)	-
					45,032,251	(51,716)	44,980,535
					3,490,316	715,368	4,205,684
<u>Net Position:</u>							
					34,804,718	10,597,513	45,402,231
					\$ 38,295,034	\$ 11,312,881	\$ 49,607,915

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 10,316,377	\$ 2,660,101	\$ 498,175	\$ 2,758,351	\$ 16,233,004
Investments	-	-	-	15,006	15,006
Receivables, net of allowance for uncollectible accounts:					
Property taxes	1,676,394	3,661	-	-	1,680,055
Motor vehicle excise taxes and other	147,060	-	-	180,982	328,042
Due from other governments	11,040,005	-	-	825,245	11,865,250
Other assets	13,035	-	-	-	13,035
Total Assets	<u>23,192,871</u>	<u>2,663,762</u>	<u>498,175</u>	<u>3,779,584</u>	<u>30,134,392</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 23,192,871</u>	<u>\$ 2,663,762</u>	<u>\$ 498,175</u>	<u>\$ 3,779,584</u>	<u>\$ 30,134,392</u>
<b>Liabilities</b>					
Warrants and accounts payable	\$ 1,723,448	\$ -	\$ -	\$ 146,895	\$ 1,870,343
Other liabilities	1,124,936	-	-	17,494	1,142,430
Unearned revenue	179,779	2,202	-	-	181,981
Total Liabilities	<u>3,028,163</u>	<u>2,202</u>	<u>-</u>	<u>164,389</u>	<u>3,194,754</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	1,483,646	3,661	-	-	1,487,307
Unavailable revenue - motor vehicle excise and other	147,060	-	-	180,982	328,042
Unavailable revenue - intergovernmental	11,040,005	-	-	825,245	11,865,250
Total Deferred Inflows of Resources	<u>12,670,711</u>	<u>3,661</u>	<u>-</u>	<u>1,006,227</u>	<u>13,680,599</u>
<b>Fund Balances</b>					
Nonspendable	13,035	-	-	21,524	34,559
Restricted	157,085	2,657,899	-	3,200,363	6,015,347
Committed	1,235,661	-	498,175	-	1,733,836
Assigned	398,190	-	-	-	398,190
Unassigned	5,690,026	-	-	(612,919)	5,077,107
Total Fund Balances	<u>7,493,997</u>	<u>2,657,899</u>	<u>498,175</u>	<u>2,608,968</u>	<u>13,259,039</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 23,192,871</u>	<u>\$ 2,663,762</u>	<u>\$ 498,175</u>	<u>\$ 3,779,584</u>	<u>\$ 30,134,392</u>

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

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<b>Total Governmental Fund Balances</b>	<b>\$ 13,259,039</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	68,891,970
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	13,680,599
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds: Net difference between projected and actual earnings on pension plan investments	68,562
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(194,548)
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the governmental funds: Other postemployment benefits Net pension liability Compensated absences Bonds and notes payable	(8,439,012) (20,302,178) (269,598) (28,399,800)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 38,295,034</u></b>

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Real estate and personal property taxes, net	\$ 40,511,969	\$ 445,198	\$ -	\$ -	\$ 40,957,167
Intergovernmental	14,800,948	132,448	-	3,426,253	18,359,649
Motor vehicle and other excises	2,061,271	-	-	-	2,061,271
Licenses and permits	468,480	-	-	67,395	535,875
Departmental and other revenue	500,585	-	83,022	3,959,539	4,543,146
Penalties and interest on taxes	209,102	-	-	-	209,102
Fines and fees	58,419	-	-	-	58,419
Investment income	29,297	8,127	5,408	1,322	44,154
Contributions and donations	-	-	-	113,482	113,482
Other income	-	-	-	137,827	137,827
<b>Total Revenues</b>	<u>58,640,071</u>	<u>585,773</u>	<u>88,430</u>	<u>7,705,818</u>	<u>67,020,092</u>
<b>Expenditures</b>					
Current:					
General government	2,137,107	621,927	-	143,032	2,902,066
Public safety	3,901,055	-	-	527,752	4,428,807
Education	31,136,909	-	-	5,894,568	37,031,477
Public works	3,134,708	-	-	637,679	3,772,387
Health and human services	507,931	-	-	314,371	822,302
Culture and recreation	571,920	-	-	431,357	1,003,277
Fringe benefits	9,065,587	-	-	79,170	9,144,757
Pensions	5,507,675	-	-	153,069	5,660,744
Debt service:					
Principal maturities	3,931,000	-	-	-	3,931,000
Interest	1,319,625	-	-	-	1,319,625
State and county tax assessments	356,719	-	-	-	356,719
<b>Total Expenditures</b>	<u>61,570,236</u>	<u>621,927</u>	<u>-</u>	<u>8,180,998</u>	<u>70,373,161</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(2,930,165)</u>	<u>(36,154)</u>	<u>88,430</u>	<u>(475,180)</u>	<u>(3,353,069)</u>
<b>Other Financing Sources</b>					
Transfers in	2,204,567	-	625,000	670,000	3,499,567
Transfers out	<u>(1,045,000)</u>	<u>(304,000)</u>	<u>(1,952,464)</u>	<u>(145,945)</u>	<u>(3,447,409)</u>
<b>Total Other Financing Sources, Net</b>	<u>1,159,567</u>	<u>(304,000)</u>	<u>(1,327,464)</u>	<u>524,055</u>	<u>52,158</u>
<b>Net Change in Fund Balances</b>	<u>(1,770,598)</u>	<u>(340,154)</u>	<u>(1,239,034)</u>	<u>48,875</u>	<u>(3,300,911)</u>
<b>Fund Balances - Beginning of year</b>	<u>9,264,595</u>	<u>2,998,053</u>	<u>1,737,209</u>	<u>2,560,093</u>	<u>16,559,950</u>
<b>Fund Balances - End of year</b>	<u>\$ 7,493,997</u>	<u>\$ 2,657,899</u>	<u>\$ 498,175</u>	<u>\$ 2,608,968</u>	<u>\$ 13,259,039</u>

See accompanying notes to basic financial statements.



**TOWN OF HOLLISTON, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (3,300,911)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. The following represents capital asset activity during 2015:

Capital outlays	2,913,882	
Depreciation	<u>(2,905,953)</u>	7,929

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In 2015, the following activity was recorded:

Debt maturities	<u>3,931,000</u>	3,931,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	(11,338)	
Accrued interest	21,949	
Other postemployment benefits	3,517,714	
Pension benefits	<u>26,323</u>	3,554,648

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference based on the two methodologies.

(702,350)

**Change in Net Position of Governmental Activities** **\$ 3,490,316**

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2015**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,465,222	\$ 12,259	\$ 1,477,481
User charges receivable	1,020,402	-	1,020,402
Total Current Assets	2,485,624	12,259	2,497,883
Noncurrent assets:			
Land	-	1,000,000	1,000,000
Capital assets, net of accumulated depreciation	15,373,277	1,325,387	16,698,664
<b>Total Assets</b>	17,858,901	2,337,646	20,196,547
<b>Deferred Outflows of Resources</b>			
Pensions	3,118	-	3,118
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	52,229	-	52,229
Interest expense payable	46,636	-	46,636
Deposits	-	3,492	3,492
Current portion of long-term debt	586,128	95,000	681,128
Total Current Liabilities	684,993	98,492	783,485
Noncurrent liabilities:			
Long-term debt	6,608,872	410,200	7,019,072
Other postemployment benefits	160,918	-	160,918
Net pension liability	923,309	-	923,309
Total Current Liabilities	7,693,099	410,200	8,103,299
<b>Total Liabilities</b>	8,378,092	508,692	8,886,784
<b>Net Position</b>			
Net investment in capital assets	8,178,277	1,820,187	9,998,464
Unrestricted	1,305,650	8,767	1,314,417
<b>Total Net Position</b>	\$ 9,483,927	\$ 1,828,954	\$ 11,312,881

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Operating Revenues</b>			
Charges for services	\$ 2,913,553	\$ 174,942	\$ 3,088,495
Total Operating Revenues	2,913,553	174,942	3,088,495
<b>Operating Expenses</b>			
Operating costs	1,425,933	7,500	1,433,433
Depreciation expense	550,418	48,841	599,259
Total Operating Expenses	1,976,351	56,341	2,032,692
<b>Operating Income</b>	937,202	118,601	1,055,803
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	-	442	442
Interest expense	(278,500)	(10,219)	(288,719)
Transfers out	(2,158)	(50,000)	(52,158)
Total Nonoperating Revenues (Expenses), Net	(280,658)	(59,777)	(340,435)
<b>Change in Net Position</b>	656,544	58,824	715,368
<b>Net Position - Beginning of year (As restated - see Note VI)</b>	8,827,383	1,770,130	10,597,513
<b>Net Position - End of year</b>	\$ 9,483,927	\$ 1,828,954	\$ 11,312,881

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from users	\$ 2,768,568	\$ 216,738	\$ 2,985,306
Payments to vendors and employees	(1,402,648)	(45,702)	(1,448,350)
Net Cash Provided by Operating Activities	1,365,920	171,036	1,536,956
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers out	(2,158)	(50,000)	(52,158)
Net Cash Used for Noncapital Related Financing Activities	(2,158)	(50,000)	(52,158)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of property and equipment	(88,177)	-	(88,177)
Repayment of short term notes payable	(2,750,000)	-	(2,750,000)
Principal payments on bonds payable	(485,000)	(99,000)	(584,000)
Proceeds from bond offering	2,500,000	-	2,500,000
Interest expense	(231,864)	(10,219)	(242,083)
Net Cash Used for Capital and Related Financing Activities	(1,055,041)	(109,219)	(1,164,260)
<b>Cash Flows from Investing Activities</b>			
Interest income	-	442	442
Net Cash Provided by Investing Activities	-	442	442
<b>Increase in Cash and Cash Equivalents</b>	308,721	12,259	320,980
<b>Cash and Cash Equivalents - Beginning of year</b>	1,156,501	-	1,156,501
<b>Cash and Cash Equivalents - End of year</b>	\$ 1,465,222	\$ 12,259	\$ 1,477,481
<b>Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:</b>			
Operating income	\$ 937,202	\$ 118,601	\$ 1,055,803
Depreciation expense	550,418	48,841	599,259
Changes in assets and liabilities:			
Receivables	(144,985)	22,695	(122,290)
Accounts payable and accrued expenses	23,285	(19,101)	4,184
Net Cash Provided by Operating Activities	\$ 1,365,920	\$ 171,036	\$ 1,536,956

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	<u>OPEB Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 52,858	\$ 515,797
Investments	4,818,613	-
Police details outstanding	-	24,653
<b>Total Assets</b>	<u>4,871,471</u>	<u>540,450</u>
<b>LIABILITIES</b>		
Warrants payable	-	18,252
Held on behalf of students	-	194,516
Performance deposits	-	200,247
Other agency liabilities	-	127,435
<b>Total Liabilities</b>	<u>-</u>	<u>540,450</u>
<b>NET POSITON HELD IN TRUST FOR</b>		
Other postemployment benefits	<u>4,871,471</u>	<u>-</u>
<b>Net Position</b>	<u>\$ 4,871,471</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2015**

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	<u>OPEB Trust</u>
<b>Additions:</b>	
Town contributions	\$ 4,861,673
Investment income:	
Interest and dividends	62,831
Net realized gain on sale of investments	83,506
Net unrealized loss in fair value of investments	(124,690)
Less: investment management fees	<u>(11,849)</u>
Net investment income	<u>9,798</u>
<b>Total Additions</b>	<u>4,871,471</u>
<b>Deductions</b>	<u>-</u>
<b>Change in Fiduciary Net Position</b>	<u>4,871,471</u>
<b>Fiduciary Net Position - Beginning of year</b>	<u>-</u>
<b>Fiduciary Net Position - End of year</b>	<u><u>\$ 4,871,471</u></u>

See accompanying notes to basic financial statements.

# TOWN OF HOLLISTON, MASSACHUSETTS

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

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### **I. Summary of Significant Accounting Policies**

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

#### **A. Reporting Entity**

The Town, which is approximately twenty-five miles southwest of Boston, is located in Middlesex County. The Town was incorporated as a town on December 3, 1724. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K to 12, water services, street maintenance, parks and recreational facilities, including a municipal golf course. The water and golf services are self-funded and treated as business enterprises in the basic financial statements.

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

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

*Community Preservation Fund* – is used to account for specific activities related to the purchase of land parcels within the Town for community preservation purposes as well as historical preservation.



Capital Reserve Fund – is used to accumulate financial resources that may through a Town Meeting vote be used to supplement future capital projects.

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

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

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

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

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

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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

Water – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Golf – accounts for the operation of the Town's golf course facility, which is maintained through the collection of a management fee.

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

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations. This fiduciary fund was established in 2015.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details, developer deposits and student activities. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

#### **D. Assets, Liabilities, and Net Position or Equity**

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

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

Real estate taxes, water and user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

The Town has entered into loan agreements since 2001 with the Massachusetts Clean Water Trust (“MCWT”). The Town expects to be subsidized by MCWT in future years on a periodic basis for principal and interest costs relative to governmental-type activities until maturity of these agreements. The Town is legally obligated for the total amount of the debt so such amounts have been recorded in the accompanying basic financial statements under the applicable governmental and business-type activities. In addition, a receivable has also been reflected for the principal amount of the subsidies.

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water mains and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

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

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

Infrastructure	25 to 50 years
Structures and improvements	50 years
Equipment, furniture, fixtures and vehicles	3 to 25 years

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

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

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

*Compensated Absences* – The Town permits employees to accumulate earned but unused vacation benefits. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured.

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

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

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies

for reporting in this category. Accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, motor vehicle excise and other and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

*Community preservation funds* represent financial resources accumulated for community and historical preservation projects.

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

*Debt service funds* represent funds allocated for future debt service costs.

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

*Fund Equity* – The Town presents its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

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

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

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

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the Town's governmental funds, primarily its general fund.

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

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 21,524	\$ 21,524
Inventory and other	13,035	-	-	-	13,035
Restricted:					
General government	-	2,657,899	-	235,676	2,893,575
Public safety	-	-	-	547,182	547,182
Education	-	-	-	1,470,543	1,470,543
Public works	-	-	-	89,656	89,656
Health and human services	-	-	-	26,624	26,624
Culture and recreation	-	-	-	496,048	496,048
Debt service	157,085	-	-	-	157,085
Capital projects	-	-	-	8,474	8,474
Expendable trust funds	-	-	-	326,160	326,160
Committed:					
General government	39,364	-	498,175	-	537,539
Public safety	251,655	-	-	-	251,655
Education	674,896	-	-	-	674,896
Public works	140,000	-	-	-	140,000
Health and human services	47,227	-	-	-	47,227
Culture and recreation	82,519	-	-	-	82,519
Assigned:					
General government	42,383	-	-	-	42,383
Public safety	72,226	-	-	-	72,226
Education	55,108	-	-	-	55,108
Public works	227,058	-	-	-	227,058
Culture and recreation	1,415	-	-	-	1,415
Unassigned:					
Unrestricted	2,667,334	-	-	(612,919)	2,054,415
Stabilization fund	3,022,692	-	-	-	3,022,692
	<u>\$ 7,493,997</u>	<u>\$ 2,657,899</u>	<u>\$ 498,175</u>	<u>\$ 2,608,968</u>	<u>\$ 13,259,039</u>

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use, it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$3,022,692 at June 30, 2015 and is reported as unassigned fund balance in the General Fund.

Encumbrances – The Town’s encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal, approved purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$1,235,661 of encumbrances from Town Meeting in the general fund as committed and \$398,190 of encumbrances from normal purchasing activity as assigned at June 30, 2015. There are no encumbrances reported in other funds.

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

The Town incurred individual fund deficits in the following nonmajor funds:

State grants special revenue funds:	
Chapter 90 roadways	\$ 450,975
Emergency management – 2015 snow and ice	72,583
Public safety grants	28,597
School lunch	24,835
Federal educational grants	<u>35,929</u>
	<u>\$ 612,919</u>

These have been reflected as unassigned fund balance of the nonmajor funds and will be funded through state grants in future fiscal years.

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

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

## **II. Detailed Notes to All Funds**

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

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer’s investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the

underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

*Credit Risk* – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer’s investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements. At June 30, 2015, the Town’s investments were minimal and consisted of donated shares of corporate equity securities.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town’s investment policy does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2015, all of the Town’s bank deposits were fully insured by the federal depository insurance or other depositors’ insurance or third party collateralization.

*Custodial credit risk: Investments* – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. At June 30, 2015, the Town maintained an investment in the State Retirees Benefits Trust Fund of \$4,818,613, which is managed by the Pension Reserves Investment Management Board of the Commonwealth of Massachusetts, or PRIM. This investment is exposed to custodial credit risk because the underlying investment securities are uninsured, unregistered and held by the counterparty.

At June 30, 2015, the Town classified money market accounts with fair values of \$4,104,198 as cash equivalents. In addition, the Town maintained common stock in corporations with fair values of \$15,006. The remainder of the Town’s cash and investments was classified as deposits.

*Interest Rate Risk* – The Town’s investment policy does not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Town mitigates this risk by generally limiting the average maturity of its deposits to twelve months or less.

*Concentration of Credit Risk* – The Town’s investment in PRIM represents nearly 100% of the Town’s total investments.

## **B. Receivables**

Receivables as of June 30, 2015 for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Property taxes	\$ 483,971	\$ -	\$ 483,971
Tax liens and foreclosures	1,196,084	-	1,196,084
Motor vehicle excise taxes	143,903	-	143,903
Ambulance	398,940	(217,977)	180,963
Departmental	3,176	-	3,176
Intergovernmental:			
Due from the MSBA	11,018,136	-	11,018,136
Due from the MCWT	21,869	-	21,869
Due from the Commonwealth - other	825,245	-	825,245
Total	<u>\$ 14,091,324</u>	<u>\$ (217,977)</u>	<u>\$ 13,873,347</u>

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2015, net of applicable allowances for uncollectible accounts, consisted entirely of user charges receivable from the Town's water operations.

Governmental funds report unavailable revenue as a deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current accounting period. The following table identifies the components of unavailable revenues at June 30, 2015 in the governmental funds:

	General Fund	Community Preservation	Nonmajor Funds	Total
Property taxes	\$ 287,562	\$ 3,661	\$ -	\$ 291,223
Tax liens and foreclosures	1,196,084	-	-	1,196,084
Motor vehicle excise taxes	143,903	-	-	143,903
Ambulance	-	-	180,963	180,963
Departmental	3,157	-	19	3,176
Intergovernmental:				
Due from the MSBA	11,018,136	-	-	11,018,136
Due from the MCWT	21,869	-	-	21,869
Due from the Commonwealth - other	-	-	825,245	825,245
Total	<u>\$ 12,670,711</u>	<u>\$ 3,661</u>	<u>\$ 1,006,227</u>	<u>\$ 13,680,599</u>

Massachusetts School Building Authority Assistance Reimbursement – As of June 30, 2015, the Town expects to receive approximately \$13.2 million from the Commonwealth of Massachusetts in the form of principal and interest subsidies for approved school construction costs. Such costs will be reimbursed to the Town in equal annual installments over the balance of the life of the related bonds, and are subject to approval by the State Legislature. The principal portion of this amount (\$11,018,136) is included in the governmental funds as an intergovernmental receivable.



## C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 4,189,149	\$ 788,026	\$ -	\$ 4,977,175
Total capital assets not being depreciated	<u>4,189,149</u>	<u>788,026</u>	<u>-</u>	<u>4,977,175</u>
Capital assets being depreciated:				
Buildings and improvements	81,972,819	326,395	-	82,299,214
Infrastructure	8,900,271	685,850	-	9,586,121
Machinery and equipment	4,716,540	917,620	(78,921)	5,555,239
Vehicles	<u>3,555,744</u>	<u>195,991</u>	<u>(266,462)</u>	<u>3,485,273</u>
Total capital assets being depreciated	<u>99,145,374</u>	<u>2,125,856</u>	<u>(345,383)</u>	<u>100,925,847</u>
Less accumulated depreciation for:				
Buildings and improvements	(27,767,623)	(2,066,806)	-	(29,834,429)
Infrastructure	(1,112,843)	(191,785)	-	(1,304,628)
Machinery and equipment	(3,000,314)	(428,229)	78,921	(3,349,622)
Vehicles	<u>(2,569,702)</u>	<u>(219,133)</u>	<u>266,462</u>	<u>(2,522,373)</u>
Total accumulated depreciation	<u>(34,450,482)</u>	<u>(2,905,953)</u>	<u>345,383</u>	<u>(37,011,052)</u>
Total capital assets being depreciated, net	<u>64,694,892</u>	<u>(780,097)</u>	<u>-</u>	<u>63,914,795</u>
Governmental activities capital assets, net	<u>\$ 68,884,041</u>	<u>\$ 7,929</u>	<u>\$ -</u>	<u>\$ 68,891,970</u>

For the fiscal year ended June 30, 2015, depreciation expense was charged to functions/programs as follows:

<b><u>Governmental Activities:</u></b>	
General government	\$ 87,148
Public safety	488,053
Education	1,908,817
Public works	373,617
Health and human services	10,056
Culture and recreation	<u>38,262</u>
	<u>\$ 2,905,953</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Business-type Activities: Water</u></b>				
Capital assets being depreciated:				
Buildings and improvements	\$ 14,765,632	\$ -	\$ -	\$ 14,765,632
Infrastructure	5,271,261	-	-	5,271,261
Machinery and equipment	935,102	40,849	-	975,951
Vehicles	161,051	47,328	-	208,379
Total capital assets being depreciated	21,133,046	88,177	-	21,221,223
Less accumulated depreciation for:				
Buildings and improvements	(4,643,952)	(369,141)	-	(5,013,093)
Infrastructure	(145,290)	(125,067)	-	(270,357)
Machinery and equipment	(347,235)	(51,477)	-	(398,712)
Vehicles	(161,051)	(4,733)	-	(165,784)
Total accumulated depreciation	(5,297,528)	(550,418)	-	(5,847,946)
Total capital assets being depreciated, net	15,835,518	(462,241)	-	15,373,277
Total Net Business-type Activities: Water	15,835,518	(462,241)	-	15,373,277
<b><u>Business-type Activities: Golf</u></b>				
Capital assets not being depreciated:				
Land	1,000,000	-	-	1,000,000
Total capital assets not being depreciated	1,000,000	-	-	1,000,000
Capital assets being depreciated:				
Buildings and improvements	1,953,610	-	-	1,953,610
Total capital assets being depreciated	1,953,610	-	-	1,953,610
Less accumulated depreciation for:				
Buildings and improvements	(579,382)	(48,841)	-	(628,223)
Total accumulated depreciation	(579,382)	(48,841)	-	(628,223)
Total capital assets being depreciated, net	1,374,228	(48,841)	-	1,325,387
Total Net Business-type Activities: Golf	2,374,228	(48,841)	-	2,325,387
Total Net Business-type Activities	\$ 18,209,746	\$ (511,082)	\$ -	\$ 17,698,664

Depreciation expense was charged to functions/programs as follows:

<b><u>Business-type Activities:</u></b>	
Water	\$ 550,418
Golf	48,841
	<u>\$ 599,259</u>

#### D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2015 were as follows:

Transfers Out	Transfers In			Total	
	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ 625,000	\$ 420,000	\$ 1,045,000	(1)
Community Preservation Fund	54,000	-	250,000	304,000	(2)
Capital Reserve Fund	1,952,464	-	-	1,952,464	(3)
Nonmajor Governmental Funds	145,945	-	-	145,945	(4)
Water Enterprise Fund	2,158	-	-	2,158	(5)
Golf Enterprise Fund	50,000	-	-	50,000	(6)
	<u>\$ 2,204,567</u>	<u>\$ 625,000</u>	<u>\$ 670,000</u>	<u>\$ 3,499,567</u>	

- (1) Transfer from the general fund to the capital reserve fund, to nonmajor funds to payoff outstanding short-term borrowing in the capital projects fund.
- (2) Transfer to general fund for article and to housing trust fund.
- (3) Transfer from capital reserve fund to the general fund for articles.
- (4) Transfer from open space (\$100,000) and ambulance (\$45,945) to the general fund.
- (5) Transfer to general fund for article funding.
- (6) Transfer of operating costs from the golf enterprise to the general fund.

#### E. Temporary Debt

The Town (excluding component units) is authorized to borrow on a temporary basis to fund the following:

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANs”) or state aid anticipation notes (“SAANs”). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount and carry maturity dates that are limited by state law.

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

In 2013, the Town began a municipal water infrastructure project. Temporary financing in the form of other short-term borrowings was provided by the Massachusetts Department of Environmental Protection’s Division of Municipal Services (“DMS”) under the State Revolving Fund Program (“SRF”). Through the SRF, the DMS provided \$2,500,000 in short-term financing to the Town. The Town retired this short-term borrowing in 2015 through the issuance of long-term obligation notes with the MCWT.

The following summarizes the activity in the Town's short-term borrowings:

Type	Interest Rate	Maturity Date	Balance July 1, 2014	Additions	Retirements	Rollovers	Balance June 30, 2015
MCWT	0.13%	Matured	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -	\$ -
BAN	1.00%	Matured	670,000	-	(670,000)	-	-
			<u>\$ 3,170,000</u>	<u>\$ -</u>	<u>\$ (3,170,000)</u>	<u>\$ -</u>	<u>\$ -</u>

The Town repaid \$670,000 in BANs in 2015. These BANs were issued for a fire ladder truck (\$420,000) and water well construction (\$250,000).

## F. Long-term Obligations

**Bond and Note Indebtedness** – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations relative to associated personnel costs.

**Legal Debt Margin** – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.”

In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town's legal debt margin as of June 30, 2015 was approximately \$104.7 million based on an equalized valuation of approximately, \$2.1 billion.

The following reflects the changes in long-term liability balances for the year ended June 30, 2015:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 32,330,800	\$ -	\$ (3,931,000)	\$ 28,399,800	\$ 4,020,000
Compensated absences	258,260	11,338	-	269,598	134,799
Other postemployment benefits	11,956,726	2,553,879	(6,071,593)	8,439,012	-
Net pension liability (a)	20,259,939	1,835,890	(1,793,651)	20,302,178	-
Total Governmental Activities	<u>\$ 64,805,725</u>	<u>\$ 4,401,107</u>	<u>\$ (11,796,244)</u>	<u>\$ 57,410,588</u>	<u>\$ 4,154,799</u>
<i>Business-type Activities:</i>					
Water					
General obligation bonds and notes payable	\$ 5,180,000	\$ 2,500,000	\$ (485,000)	\$ 7,195,000	\$ 586,128
Other postemployment benefits	145,223	31,018	(15,323)	160,918	-
Net pension liability (a)	921,415	86,611	(84,717)	923,309	-
Golf					
General obligation bonds and notes payable	604,200	-	(99,000)	505,200	95,000
Total Business-type Activities	<u>\$ 6,850,838</u>	<u>\$ 2,617,629</u>	<u>\$ (684,040)</u>	<u>\$ 8,784,427</u>	<u>\$ 681,128</u>
Total Long-term Obligations	<u>\$ 71,656,563</u>	<u>\$ 7,018,736</u>	<u>\$ (12,480,284)</u>	<u>\$ 66,195,015</u>	<u>\$ 4,835,927</u>

(a) The June 30, 2014 balance is the result of a restatement related to the implementation of GASB Statement No. 68.

The following is a summary of outstanding long-term debt obligations outstanding at June 30, 2015:

Description	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	3.00 - 5.00%	\$ 32,240,800	\$ -	\$ (3,916,000)	\$ 28,324,800
MA Clean Water Trust Note	various	90,000	-	(15,000)	75,000
Total Governmental Activities		<u>\$ 32,330,800</u>	<u>\$ -</u>	<u>\$ (3,931,000)</u>	<u>\$ 28,399,800</u>
<i>Business-type Activities - Water</i>					
General obligation bonds	3.25 - 5.0%	\$ 5,180,000	\$ -	\$ (485,000)	\$ 4,695,000
MA Clean Water Trust Note	2.00%	-	2,500,000	-	2,500,000
<i>Business-type Activities - Golf</i>					
General obligation bond	3.50 - 5.00%	604,200	-	(99,000)	505,200
Total Business-type Activities		<u>\$ 5,784,200</u>	<u>\$ -</u>	<u>\$ (584,000)</u>	<u>\$ 7,700,200</u>
Total Bond and Note Debt		<u>\$ 38,115,000</u>			<u>\$ 36,100,000</u>

*Future Debt Payoff* – Payments on general long-term debt obligation bonds due in future years consist of the following:

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
Governmental Activities							
2016	\$ 4,020,000	\$ (4,151)	\$ 4,015,849	\$ 1,179,364	\$ (2,568)	\$ 1,176,796	\$ 5,192,645
2017	4,145,000	(4,185)	4,140,815	1,019,706	(2,155)	1,017,551	5,158,366
2018	4,295,000	(4,323)	4,290,677	825,944	(1,631)	824,313	5,114,990
2019	4,435,000	(4,524)	4,430,476	633,305	(1,118)	632,187	5,062,663
2020	4,560,000	(4,686)	4,555,314	441,850	(412)	441,438	4,996,752
2021 - 2025	5,854,800	-	5,854,800	717,056	-	717,056	6,571,856
2026 - 2029	1,090,000	-	1,090,000	103,063	-	103,063	1,193,063
Total	\$ 28,399,800	\$ (21,869)	\$ 28,377,931	\$ 4,920,288	\$ (7,884)	\$ 4,912,404	\$ 33,290,335

Bonded Debt - Business-type Activities:

<i>Business-type Activities: Water</i>							
2016	\$ 586,128	\$ -	\$ 586,128	\$ 250,811	\$ -	\$ 250,811	\$ 836,939
2017	588,325	-	588,325	226,527	-	226,527	814,852
2018	590,571	-	590,571	200,211	-	200,211	790,782
2019	592,865	-	592,865	175,163	-	175,163	768,028
2020	595,210	-	595,210	151,817	-	151,817	747,027
2021 - 2025	2,533,036	-	2,533,036	435,542	-	435,542	2,968,578
2026 - 2030	979,775	-	979,775	119,665	-	119,665	1,099,440
2031 - 2035	729,090	-	729,090	44,372	-	44,372	773,462
Total	<u>\$ 7,195,000</u>	<u>\$ -</u>	<u>\$ 7,195,000</u>	<u>\$ 1,604,108</u>	<u>\$ -</u>	<u>\$ 1,604,108</u>	<u>\$ 8,799,108</u>

(continued)

<i>Business-type Activities: Golf</i>														
2016	\$	95,000	\$	-	\$	95,000	\$	9,229	\$	-	\$	9,229	\$	104,229
2017		90,000		-		90,000		8,279		-		8,279		98,279
2018		90,000		-		90,000		6,479		-		6,479		96,479
2019		90,000		-		90,000		4,679		-		4,679		94,679
2020		90,000		-		90,000		2,879		-		2,879		92,879
2021		50,200		-		50,200		1,079		-		1,079		51,279
Total	\$	505,200	\$	-	\$	505,200	\$	32,624	\$	-	\$	32,624	\$	537,824

<i>Business-type Activities: Total</i>														
2016	\$	681,128	\$	-	\$	681,128	\$	260,040	\$	-	\$	260,040	\$	941,168
2017		678,325		-		678,325		234,806		-		234,806		913,131
2018		680,571		-		680,571		206,690		-		206,690		887,261
2019		682,865		-		682,865		179,842		-		179,842		862,707
2020		685,210		-		685,210		154,696		-		154,696		839,906
2021 - 2025		2,583,236		-		2,583,236		436,621		-		436,621		3,019,857
2026 - 2030		979,775		-		979,775		119,665		-		119,665		1,099,440
2031 - 2035		729,090		-		729,090		44,372		-		44,372		773,462
Total	\$	<u>7,700,200</u>	\$	<u>-</u>	\$	<u>7,700,200</u>	\$	<u>1,636,732</u>	\$	<u>-</u>	\$	<u>1,636,732</u>	\$	<u>9,336,932</u>
(concluded)														

(concluded)

**MCWT Loan Subsidies** – The Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$21,869 and interest in the amount of \$7,884 until the maturity of these agreements. The principal portion of these subsidies is reported as an intergovernmental receivable in the Town's general fund.

**Authorized and Unissued Debt** – At June 30, 2015, the Town has authorized and unissued debt totaling \$1,750,000 related to land acquisition on Washington Street.

### III. **Other Information**

#### A. **Retirement System**

**Pension Plan Description** – The Town contributes to the Middlesex Regional Retirement System (the "Retirement System"), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws. The Retirement System is administered by the Middlesex Regional Retirement Board (the "Retirement Board"). Stand-alone audited financial statements for the year ended December 31, 2014 were issued and are available by submitting a request to the Retirement System at 25 Linnell Circle, Billerica, Massachusetts 01821.

Current membership in the Retirement System for all seventy-one employers as of December 31, 2014 was as follows:

Active members	10,224
Inactive members	1,840
Disabled members	454
Retirees and beneficiaries currently receiving benefits	<u>4,813</u>
	<u>17,331</u>

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

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

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

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

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

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

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

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2014.

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

The Town contributed \$1,946,930 to the Retirement System in fiscal year 2015, which exceeded the actuarially-determined contribution requirement for the fiscal year by \$37,101. The Town's contributions as a percentage of covered payroll was approximately 20% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the Town reported a liability of \$21,225,487 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 1.77% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2014, which can be obtained by contacting the Retirement Board.

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

Pension Expense – The Town recognized \$1,919,383 in pension expense in the statement of activities in fiscal year 2015.



Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ —	\$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	71,680	—
Changes in proportion and differences between Town contributions and proportionate share of contributions	—	—
Town contributions subsequent to the measurement date	—	—
Total	<u>\$ 71,680</u>	<u>\$ —</u>

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

Year ended June 30,	
2016	\$ 17,920
2017	17,920
2018	17,920
2019	<u>17,920</u>
Total	<u>\$ 71,680</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry age normal cost method.
Amortization method:	Prior year's total contribution increased by 6.5% for fiscal 2016 through fiscal 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI liability amortized in level payments.
Remaining amortization period:	As of July 1, 2014, 5 years remaining for 2002 ERI liability, 6 years remaining for 2003 ERI liability, 8 years remaining for 2010 ERI liability and 21 years remaining for unfunded liability.
Asset valuation method:	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Inflation rate:	4.00%

Salary increased:	Varied by length of service with ultimate rate of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4 (previously 4.75% for Group 1 and 5.25% for Group 4).
Cost of living adjustments:	3.0% of the first \$14,000 of retirement income.
Investment rate of return:	7.785%, net of pension plan investment expense, including inflation (previously 8.0%).
Rates of retirement:	Varied based upon age for general employees, police and fire employees.
Rates of disability:	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).
Pre-retirement mortality rates:	The RP-2000 Employee Mortality Table projected 22 years with Scale AA.
Post-retirement mortality rates:	The RP-2000 Employee Mortality Table projected 17 years with Scale AA.
Disabled retiree mortality rates:	The RP-2000 Healthy Annuitant Mortality Table set forward three year projected 17 years with Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	19.60%	6.60%
International equity – developed markets	15.60%	7.10%
International equity – emerging markets	6.50%	9.40%
Core fixed income	15.30%	2.20%
High-yield fixed income	8.30%	4.70%
Real estate	9.90%	4.40%
Commodities	3.90%	4.40%
Short-term government money market	0%	1.80%
Hedge fund, GTTA, Risk parity	9.80%	3.90%
Private equity	11.10%	11.70%

**Discount Rate** – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 7.875%, which was a reduction from the previous discount rate of 8.0%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term

expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.875% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.875%) or one percentage point higher (8.875%) than the current rate:

	1% Decrease <u>(6.875%)</u>	Current Discount <u>(7.875%)</u>	1% Increase <u>(8.875%)</u>
Town’s proportionate share of the net pension liability	\$ 25,666,106	\$ 21,225,487	\$ 17,444,801

## B. Massachusetts Teachers’ Retirement System

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

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

For the year ended June 30, 2015, the Commonwealth contributed \$3,224,083 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.343946%, which was based on the actual, actuarially-determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

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

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 54,674,950	\$ (54,674,950)	\$ —
Pension expense	3,798,531	(3,798,531)	—

The Town recognized \$3,798,531 in intergovernmental revenue and pension expense relative to this arrangement.

MTRS issues certain financial information to the public on its website – [www.mass.gov/mtrs](http://www.mass.gov/mtrs). A more detailed discussion of its funding policies, actuarial assumptions and other inputs used to measure total pension liability may be found there.

### **C. Risk Financing**

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation. The Town essentially transfers its risk through payment of its annual assessment, which is adjusted according to the Town's experience history. All insurance except health (see below) is carried through conventional, commercial carriers.

The Town is a member of the West Suburban Health Group ("WSHG"), a public entity risk pool established in accordance with MGL. WSHG is a common risk management and insurance program servicing thirteen towns, two educational collaborative and one school district. The Town pays a monthly premium to WSHG for its health insurance coverage for all active and retired employees. The Municipal Health Group Agreement for Joint Negotiation and Purchase of Health Coverage provides that WSHG will be self-insured through member assessments and will reinsure through commercial companies for claims in excess of \$100,000 per individual policy year. Town management and WSHG believe that member assessments are adequate to meet all claims incurred but not reported as of June 30, 2015.

### **D. Other Postemployment Benefits – OPEB**

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

As of June 30, 2014 (the date of the latest actuarial valuation report), the number of participants in the Plan consisted of 300 active employees and 326 retired employees, which include spouses, for a total of 626 participants.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 40% of the cost of the calculated health insurance contributions. The remainder of the health insurance premiums is funded by the Town. The Town pays 50% of the annual cost of life insurance premiums (\$3,000 face value) for each participant; the participants pay the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town's annual OPEB cost is calculated based on the annual required contribution ("ARC") of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the Town's OPEB obligation:

	Town	Water Enterprise	Total
Annual required contributions ("ARC")	\$ 2,417,720	\$ 29,365	\$ 2,447,085
Interest on net OPEB obligation	717,404	8,713	726,117
Adjustment to ARC	(581,245)	(7,060)	(588,305)
Annual OPEB cost	2,553,879	31,018	2,584,897
Contributions made	(6,071,593)	(15,323)	(6,086,916)
Increase in net OPEB obligation	(3,517,714)	15,695	(3,502,019)
Net OPEB obligation - beginning of year	11,956,726	145,223	12,101,949
Net OPEB obligation - end of year	<u>\$ 8,439,012</u>	<u>\$ 160,918</u>	<u>\$ 8,599,930</u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)*	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2015	\$ 2,584,897	235%	\$ 8,599,930
June 30, 2014	2,432,810	49%	12,101,949
June 30, 2013	3,487,659	41%	10,851,470

\* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: general government \$93,497; public safety \$273,973; public works \$69,979; health and human services \$31,662; culture and recreation \$35,252; education \$2,049,516; and water enterprise \$31,018.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2015 for the most recent actuarial valuation performed as of June 30, 2014, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2014	\$ -	\$ 30,415,629	\$ 30,415,629	0.0%	n/a	n/a

The funded status used in the latest actuarial valuation did not incorporate the nearly \$4.9 million in funding the Town contributed to its newly formed OPEB trust in 2015.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

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

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	June 30, 2014
Inflation rate	3.5%
Investment rate of return	6.0%
Healthcare/Medical cost trend rate	7.5% decreasing by 0.5% for 5 years to an ultimate level of 5% per year
Actuarial cost method	Projected unit credit
Remaining amortization period	30 years (closed) as of July 1, 2013
Amortization method	Payments increasing at 3.5%
Asset valuation method	Market value

## **E. Commitments and Contingencies**

The Town is subject to the following commitments and contingencies:

Litigation – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2015, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2015.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). Many of these cases pertain to the telephone and telegraph companies, who have challenged their assessed valuations of personal property. There are several residential and commercial real estate cases pending at the ATB. In total, the gross value of these properties total nearly \$49.9 million at June 30, 2015.

The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these tax payers, if any. Furthermore, the Town cannot determine the likelihood of the taxpayers’ success at the ATB. Therefore, no such loss provision has been made in the Town’s basic financial statements.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor

cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

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

##### **A. Current Year Implementations**

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement built upon the existing framework for financial reports of defined benefit pension plans, which included a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhanced note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also required the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impacted the financial reports of the Retirement System and not the financial statements of the Town.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaced the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 required governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhanced accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements and required a restatement of the prior period's reported net position. Refer to Note VI.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of GASB 69 became effective for the Town in fiscal 2015 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 was to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2015 and did not have a material effect on its financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 was to address an issue regarding application of the transition provisions of GASB 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements. Refer to Note VI.

## **B. Future Year Implementations**

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify



– in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles, or GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

## V. Economic Dependence and Concentrations

During the year ended June 30, 2015, approximately 25% of revenues of the general fund were recognized from the Commonwealth of Massachusetts as well as the federal government.

The Town's tax title receivable totaled \$1,196,084 at June 30, 2015. A single tax payer represented \$718,454, or over 60%, of this total. A significant portion of this tax title receivable is aged over five years.

## VI. Restatement

The following table illustrates the restatement made to the Town's June 30, 2014 net position balances:

	Governmental Activities	Business-type Activities	Total
Net position at June 30, 2014, as previously reported	\$ 55,064,657	\$ 11,518,928	\$ 66,583,585
Record net pension liability at June 30, 2014	<u>(20,259,939)</u>	<u>(921,415)</u>	<u>(21,181,354)</u>
Net position at June 30, 2014, as restated	<u>\$ 34,804,718</u>	<u>\$ 10,597,513</u>	<u>\$ 45,402,231</u>

\* \* \* \* \*

**TOWN OF HOLLISTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - MTRS**  
**YEAR ENDED JUNE 30, 2015**

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

	Year Ended December 31, 2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

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

See accompanying independent auditor's report.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2015**

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

*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Town's proportion of the net pension liability (asset)	1.766853%
Town's proportionate share of the net pension liability (asset)	\$ 21,225
Town's covered-employee payroll	\$ 9,799
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	216.6%
Plan fiduciary net position as a percentage of the total pension liability	47.65%

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

*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Actuarially determined contribution	\$ 1,910
Contributions in relation to the actuarially determined contribution	<u>1,947</u>
Contribution deficiency (excess)	<u>\$ (37)</u>
Town's covered-employee payroll	\$ 9,799
Contributions as a percentage of covered-employee payroll	19.9%

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

See accompanying independent auditor's report.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB**  
**YEAR ENDED JUNE 30, 2015**

**SCHEDULES OF FUNDING PROGRESS**

**Other Postemployment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
6/30/2014	\$ -	\$ 30,415,629	\$ 30,415,629	0.0%	n/a	n/a
6/30/2012	-	47,793,442	47,793,442	0.0%	n/a	n/a
7/1/2009	-	46,253,557	46,253,557	0.0%	24,542,780	188.5%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2015	\$ 2,584,897	\$ 6,086,916	235.5%
2014	2,432,810	1,182,330	48.6%
2013	3,487,659	1,425,582	40.9%

See accompanying independent auditors' report.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Favorable
	Budget	Budget	Amounts		Adjusted	(Unfavorable)
<b>REVENUES</b>						
Real estate and personal property taxes, net	\$ 40,322,038	\$ 40,322,038	\$ 40,534,038		\$ 40,534,038	\$ 212,000
Intergovernmental	10,912,132	10,912,132	11,002,417		11,002,417	90,285
Motor vehicle and other excises	1,850,000	1,850,000	2,061,271		2,061,271	211,271
License and permits	325,000	325,000	468,480		468,480	143,480
Departmental and other revenue	319,220	319,220	500,585		500,585	181,365
Penalties and interest on taxes	150,000	150,000	209,102		209,102	59,102
Fines and forfeitures	60,000	60,000	58,419		58,419	(1,581)
Investment income	22,000	22,000	21,614		21,614	(386)
Total Revenues	53,960,390	53,960,390	54,855,926		54,855,926	895,536
<b>EXPENDITURES</b>						
General government	2,135,235	2,135,235	2,016,250	\$ 81,747	2,097,997	37,238
Public safety	4,334,446	4,334,446	3,963,850	323,881	4,287,731	46,715
Education	32,292,984	32,912,984	32,182,685	730,004	32,912,689	295
Public works	3,388,801	3,528,801	3,134,708	367,058	3,501,766	27,035
Health and human services	577,647	577,647	507,931	47,226	555,157	22,490
Culture and recreation	602,855	656,855	571,920	83,934	655,854	1,001
Fringe benefits	4,551,461	4,551,461	4,442,219	-	4,442,219	109,242
Pensions	1,842,100	1,842,100	1,709,144	-	1,709,144	132,956
Debt service	5,359,844	5,359,844	5,359,844	-	5,359,844	-
State and county tax assessments	365,723	365,723	356,719	-	356,719	9,004
Total Expenditures	55,451,096	56,265,096	54,245,270	1,633,850	55,879,120	385,976
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	1,609,567	2,628,567	2,678,567	-	2,678,567	50,000
Transfers out	(2,284,013)	(3,389,013)	(3,389,013)	-	(3,389,013)	-
Total Other Financing Sources (Uses)	(674,446)	(760,446)	(710,446)	-	(710,446)	50,000
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(2,165,152)	(3,065,152)	\$ (99,790)	\$ (1,633,850)	\$ (1,733,640)	\$ 1,331,512
Other budget items:						
Prior year encumbrances	2,207,918	2,207,918				
From available surplus (free cash)	-	690,000				
From available surplus (overlay)	-	210,000				
Overlay deficits	(117)	(117)				
Prior year deficits	(42,649)	(42,649)				
Total other budget items	2,165,152	3,065,152				
Net budget	\$ -	\$ -				

The notes to the financial statements are an integral part of this statement.

# TOWN OF HOLLISTON, MASSACHUSETTS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2015

### **I. Budgetary Basis of Accounting**

An annual budget is legally adopted for the general fund, receipts reserve funds and water enterprise fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by the Town members at the Town's annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance.

During the fiscal year, Town meeting appropriated approximately \$1.9 million in additional appropriations. These were primarily related to education (\$600k), public works (\$100k), culture and recreation (\$100k) and transfers out to other funds (\$1.1 million).

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget. A reconciliation is provided below:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 54,855,926
On behalf payments	\$ 3,798,531	\$ -	3,798,531
Revenue recognition - 60 day receivable effect	(22,069)	-	(22,069)
Stabilization interest - GASB 54 impact	-	7,683	7,683
Revenues on a GAAP basis	<u>\$ 3,776,462</u>	<u>\$ 7,683</u>	<u>\$ 58,640,071</u>
Expenditures on a budgetary basis			\$ 54,245,270
Teacher's summer school accrual effect	\$ (1,045,776)	\$ -	(1,045,776)
Debt service treated as transfers out	-	(109,219)	(109,219)
OPEB transfers treated as expenditures	-	4,739,492	4,739,492
Other accruals	(58,062)	-	(58,062)
On behalf payments	3,798,531	-	3,798,531
Expenditures on a GAAP basis	<u>\$ 2,694,693</u>	<u>\$ 4,630,273</u>	<u>\$ 61,570,236</u>
Net transfers on a budgetary basis			\$ (710,446)
Stabilization transfers - GASB 54 impact	\$ -	\$ 426,000	426,000
OPEB transfers treated as expenditures	-	1,444,013	1,444,013
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ 1,870,013</u>	<u>\$ 1,159,567</u>