

**TOWN OF HOLLISTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information

Year Ended June 30, 2016

# **TOWN OF HOLLISTON, MASSACHUSETTS**

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## **INDEPENDENT AUDITORS' REPORT**

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

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, 2016, 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, 2016, 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.

## 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 November 14, 2016, 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 & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
November 14, 2016

## 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, 2016. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$57.4 million (*total net position*). The Town's total net position increased by approximately \$7.7 million in 2016. The net position in governmental activities increased nearly \$5.2 million while the net position in the business-type activities increased over \$2.5 million.

The increase in net position within the governmental activities was primarily the result of (i) a refunding (i.e., refinancing) of general obligation bonds, which resulted in an economic gain of approximately \$1.1 million; (ii) an increase in state educational grant fund balances (particularly circuit breaker) of over \$1.6 million; (iii) the difference between actual revenues and expenses exceeding budget by over \$2.5 million; and (iv) a sharp decrease in the rate of growth in the Town's reported OPEB obligation, which was the result of its new funding strategy.

The increase in net position within business-type activities was primarily due to a new \$300 per user annual infrastructure assessment in the Town's water enterprise fund that generated approximately \$1.3 million in additional revenues in the enterprise;

- 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 nearly \$30.5 million at June 30, 2016 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 \$17.2 million, which is over \$3.9 million higher than the prior year. This increase was due primarily to an increase in the fund balances of the general fund and nonmajor funds of approximately \$1.5 million and \$2.6 million, respectively. Of the ending fund balance, almost \$7.6 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 \$7.6 million, which represents nearly 12.5% percent of the total fiscal year 2016 general fund expenditures. The June 30, 2016 total general fund balance of over \$9.0 million was approximately 14.9% of the total fiscal year 2016 general fund expenditures.
- The Town's total gross long-term debt obligations decreased nearly \$3.9 million during the current fiscal year. The Town borrowed \$1.7 million in fiscal year 2016 through the issuance of new general obligation bonds. In February 2016, the Town completed a refunding of existing general obligation bonds, which resulted in a decrease in principal of over \$0.9 million. In addition, the Town made principal payments on its long-term obligations of over \$4.7 million.

## **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 nearly \$57.4 million (*total net position*). The Town's total net position increased by approximately \$7.7 million in 2016.

The condensed comparative statement of net position is as follows:

	Governmental Activities		Business-type Activities		Total	
	June 30,		June 30,		June 30,	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current and other assets	\$ 32,792,892	\$ 30,134,392	\$ 4,485,786	\$ 2,497,883	\$ 37,278,678	\$ 32,632,275
Capital assets, net	<u>70,185,742</u>	<u>68,891,970</u>	<u>17,662,600</u>	<u>17,698,664</u>	<u>87,848,342</u>	<u>86,590,634</u>
Total Assets	<u>102,978,634</u>	<u>99,026,362</u>	<u>22,148,386</u>	<u>20,196,547</u>	<u>125,127,020</u>	<u>119,222,909</u>
<u>Deferred Outflows of Resources</u>						
Pensions	<u>1,618,222</u>	<u>68,562</u>	<u>73,594</u>	<u>3,118</u>	<u>1,691,816</u>	<u>71,680</u>
<u>Liabilities</u>						
Long-term liabilities	56,900,465	57,410,588	8,184,090	8,784,427	65,084,555	66,195,015
Other liabilities	<u>4,238,961</u>	<u>3,389,302</u>	<u>141,663</u>	<u>102,357</u>	<u>4,380,624</u>	<u>3,491,659</u>
Total Liabilities	<u>61,139,426</u>	<u>60,799,890</u>	<u>8,325,753</u>	<u>8,886,784</u>	<u>69,465,179</u>	<u>69,686,674</u>
<u>Deferred Inflows of Resources</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position</u>						
Net investment in capital assets	53,408,459	51,510,306	10,662,076	9,998,464	64,070,535	61,508,770
Restricted	7,833,649	6,315,314	-	-	7,833,649	6,315,314
Unrestricted	<u>(17,784,678)</u>	<u>(19,530,586)</u>	<u>3,234,151</u>	<u>1,314,417</u>	<u>(14,550,527)</u>	<u>(18,216,169)</u>
Total Net Position	<u>\$ 43,457,430</u>	<u>\$ 38,295,034</u>	<u>\$ 13,896,227</u>	<u>\$ 11,312,881</u>	<u>\$ 57,353,657</u>	<u>\$ 49,607,915</u>

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, 2016 and 2015. 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 nearly \$30.5 million and nearly \$1.2 million at June 30, 2016 in the governmental and business-type activities, respectively.



The condensed comparative statement of activities is as follows:

	Governmental Activities		Business-type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 5,239,064	\$ 5,555,074	\$ 4,936,695	\$ 3,088,495	\$ 10,175,759	\$ 8,643,569
Operating grants and contributions	17,444,804	15,422,565	-	-	17,444,804	15,422,565
Capital grants and contributions	770,999	360,010	-	-	770,999	360,010
General revenues:						
Property taxes	43,156,464	40,960,863	-	-	43,156,464	40,960,863
Intergovernmental	1,677,404	1,657,760	-	-	1,677,404	1,657,760
Other	2,578,253	2,361,470	405	442	2,578,658	2,361,912
Total revenues	<u>70,866,988</u>	<u>66,317,742</u>	<u>4,937,100</u>	<u>3,088,937</u>	<u>75,804,088</u>	<u>69,406,679</u>
Expenses:						
General government	2,659,168	2,562,175	-	-	2,659,168	2,562,175
Public safety	6,479,627	5,861,454	-	-	6,479,627	5,861,454
Education	49,823,651	47,265,127	-	-	49,823,651	47,265,127
Public works	3,292,415	3,508,735	-	-	3,292,415	3,508,735
Health and human services	895,275	1,048,045	-	-	895,275	1,048,045
Culture and recreation	1,462,924	1,336,372	-	-	1,462,924	1,336,372
Debt service	1,115,976	1,297,676	-	-	1,115,976	1,297,676
Water	-	-	2,271,241	2,254,851	2,271,241	2,254,851
Golf	-	-	58,069	66,560	58,069	66,560
Total expenses	<u>65,729,036</u>	<u>62,879,584</u>	<u>2,329,310</u>	<u>2,321,411</u>	<u>68,058,346</u>	<u>65,200,995</u>
Increase in net position	5,137,952	3,438,158	2,607,790	767,526	7,745,742	4,205,684
Transfers	<u>24,444</u>	<u>52,158</u>	<u>(24,444)</u>	<u>(52,158)</u>	<u>-</u>	<u>-</u>
Change in net position	5,162,396	3,490,316	2,583,346	715,368	7,745,742	4,205,684
Net position - beginning of year	38,295,034	34,804,718	11,312,881	10,597,513	49,607,915	45,402,231
Net position - end of year	<u>\$ 43,457,430</u>	<u>\$ 38,295,034</u>	<u>\$ 13,896,227</u>	<u>\$ 11,312,881</u>	<u>\$ 57,353,657</u>	<u>\$ 49,607,915</u>

**Governmental Activities.** Property taxes made up approximately 60.9% and 61.8% of total governmental activities revenues in fiscal years 2016 and 2015, respectively. The gross dollar increase in property taxes was consistent with proposition 2 ½ limitations plus new growth. Operating grants represented approximately 24.6% and 23.3% of total governmental activities revenues in fiscal years 2016 and 2015, respectively. No other revenues were greater than 10% of total governmental activities revenues in fiscal years 2016 or 2015.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 75.8% and 75.2% of total fiscal year 2016 and 2015 governmental activities expenses, respectively. No other expense categories were greater than 10% of total expenses in fiscal years 2016 or 2015.

**Business-type Activities.** The Town reports the activities of its water and golf enterprise funds as business-type activities. There was a sharp increase in water revenues, primarily as a result of the implementation of a \$300 per user annual infrastructure assessment, which generated approximately \$1.3 million in additional water revenues. Operating expenses in the business-type activities were consistent year-over-year.

## **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 \$17.2 million, which was over \$3.9 million higher than the prior year. This increase was due primarily to an increase in the fund balances of the general fund and nonmajor funds of approximately \$1.5 million and \$2.6 million, respectively. Of the ending fund balance, almost \$7.6 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 \$7.6 million, while total fund balance was over \$9.0 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 12.5% of total general fund expenditures, while total fund balance represents approximately 14.9% 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 \$2.4 million at June 30, 2016.

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, 2016.

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 \$5.2 million.

**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 \$13.9 million in the aggregate.

## **General Fund Budgetary Highlights**

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, 2016, the Town's investment in capital assets for its governmental and business-type activities approximated \$70.2 million and \$17.7 million, respectively. Governmental net capital assets increased nearly \$1.3 million in fiscal year 2016 while business-type net capital assets were consistent with the prior year. Capital asset additions from governmental activities in 2016 totaled over \$4.3 million and exceeded 2016 depreciation expense of \$3.0 million. Conversely, 2016 depreciation expense of approximately \$618,000 exceeded capital additions in the business-type activities, which were entirely incurred in the water fund, of less than \$583,000. 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 (net of unamortized bond premiums) of approximately \$33.1 million, which represents a decrease of approximately \$3.9 million from the prior year. Total net long-term debt was comprised of over \$26.1 million in general obligation bonds of governmental activities and approximately \$7.0 million in general obligation bonds of business-type activities.

The Town borrowed \$1,725,000 in August 2015 for the purposes of financing the acquisition of a new Town building. In addition, in February 2016, the Town completed a refunding of existing general obligation bonds, which resulted in a decrease in principal of over \$0.9 million.

As of June 30, 2016, the Town expects to receive reimbursements from the Massachusetts School Business Authority for the repayment of long-term debt principal of approximately \$9.4 million and future interest in the amount of approximately \$1.6 million. These reimbursements are expected to be received in regular installments through fiscal year 2026.

In January 2016, Standard & Poor's Ratings Services ("S&P") assigned an "AA+" credit rating to the Town's long-term general obligation debt. This is one grade lower than S&P's highest rating of AAA.

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 3.6% unemployment rate for Middlesex County for June 2016, which was slightly better than the state-wide unemployment rate of 4.3%. The Town's unemployment rate was 3.5% for June 2016. Labor markets have stabilized, particularly in region of Massachusetts the Town occupies.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2016 were set to approximate 87% 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 been robust over the past several years. Housing values have experienced increases at higher rates than most Massachusetts communities. Furthermore, housing inventory is at a premium within the Town.
- Inflationary trends in the region are consistent with state and national indices.

These factors were considered in preparing the Town's budget for the 2017 fiscal year, which was adopted at Town Meeting in May 2016. The tax rate, which reflects the adopted budget, is expected to be set before the end of calendar year 2016.

### **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, 2016**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,755,740	\$ 2,998,940	\$ 19,754,680
Investments	3,655,536	-	3,655,536
Receivables, net of allowance for uncollectible accounts:			
Property taxes	1,982,945	-	1,982,945
User charges, fees and other	210,978	1,486,846	1,697,824
Motor vehicle excise taxes	171,819	-	171,819
Intergovernmental	10,000,183	-	10,000,183
Other current assets	15,691	-	15,691
Land	5,637,300	1,000,000	6,637,300
Construction in process	65,000	-	65,000
Depreciable capital assets, net of accumulated depreciation	64,483,442	16,662,600	81,146,042
 Total Assets	 102,978,634	 22,148,386	 125,127,020
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	1,618,222	73,594	1,691,816
<b>LIABILITIES</b>			
Current liabilities:			
Warrants and accounts payable	2,780,002	97,858	2,877,860
Other liabilities	1,014,530	3,492	1,018,022
Interest expense payable	205,011	40,313	245,324
Unearned revenue	239,418	-	239,418
Noncurrent liabilities:			
Due in one year or less	4,776,012	711,547	5,487,559
Due in more than one year	52,124,453	7,472,543	59,596,996
 Total Liabilities	 61,139,426	 8,325,753	 69,465,179
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-
<b>NET POSITION</b>			
Net investment in capital assets	53,408,459	10,662,076	64,070,535
Restricted for:			
Community preservation	2,410,687	-	2,410,687
Perpetual funds	168,631	-	168,631
Debt service	241,365	-	241,365
Other purposes	5,012,966	-	5,012,966
Unrestricted	(17,784,678)	3,234,151	(14,550,527)
 Total Net Position	 \$ 43,457,430	 \$ 13,896,227	 \$ 57,353,657

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

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	\$ 2,659,168	\$ 339,288	\$ 28,065	\$ -	\$ (2,291,815)		\$ (2,291,815)
Public safety	6,479,627	850,234	122,940	-	(5,506,453)		(5,506,453)
Education	49,823,651	3,284,883	16,662,593	80,000	(29,796,175)		(29,796,175)
Public works	3,292,415	200,316	72,583	590,999	(2,428,517)		(2,428,517)
Health and human services	895,275	190,768	107,127	-	(597,380)		(597,380)
Culture and recreation	1,462,924	373,575	56,536	100,000	(932,813)		(932,813)
Interest expense	1,115,976	-	394,960	-	(721,016)		(721,016)
Total Governmental Activities	65,729,036	5,239,064	17,444,804	770,999	(42,274,169)		(42,274,169)
<u>Business-type Activities:</u>							
Water	2,271,241	4,703,916	-	-	-	\$ 2,432,675	2,432,675
Golf	58,069	232,779	-	-	-	174,710	174,710
Total Primary Government	\$ 68,058,346	\$ 10,175,759	\$ 17,444,804	\$ 770,999	(42,274,169)	2,607,385	(39,666,784)
<u>General Revenues:</u>							
					43,156,464	-	43,156,464
					2,268,489	-	2,268,489
					223,629	-	223,629
					1,677,404	-	1,677,404
					86,135	405	86,540
					24,444	(24,444)	-
					47,436,565	(24,039)	47,412,526
					5,162,396	2,583,346	7,745,742

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 9,751,527	\$ 1,687,385	\$ 548,063	\$ 4,768,765	\$ 16,755,740
Investments	2,912,424	728,106	-	15,006	3,655,536
Receivables, net of allowance for uncollectible accounts:					
Property taxes	1,976,357	6,588	-	-	1,982,945
Motor vehicle excise taxes and other	174,474	-	-	208,323	382,797
Due from other governments	9,374,754	-	-	625,429	10,000,183
Other assets	15,691	-	-	-	15,691
Total Assets	<u>24,205,227</u>	<u>2,422,079</u>	<u>548,063</u>	<u>5,617,523</u>	<u>32,792,892</u>
<b>Deferred Outflows of Resources</b>	-	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 24,205,227</u>	<u>\$ 2,422,079</u>	<u>\$ 548,063</u>	<u>\$ 5,617,523</u>	<u>\$ 32,792,892</u>
<b>Liabilities</b>					
Warrants and accounts payable	\$ 2,555,663	\$ 1,283	\$ -	\$ 223,056	\$ 2,780,002
Other liabilities	1,014,530	-	-	-	1,014,530
Unearned revenue	235,897	3,521	-	-	239,418
Total Liabilities	<u>3,806,090</u>	<u>4,804</u>	<u>-</u>	<u>223,056</u>	<u>4,033,950</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	1,811,450	6,588	-	-	1,818,038
Unavailable revenue - motor vehicle excise and other	174,474	-	-	208,323	382,797
Unavailable revenue - intergovernmental	9,374,754	-	-	-	9,374,754
Total Deferred Inflows of Resources	<u>11,360,678</u>	<u>6,588</u>	<u>-</u>	<u>208,323</u>	<u>11,575,589</u>
<b>Fund Balances</b>					
Nonspendable	15,691	-	-	21,524	37,215
Restricted	241,365	2,410,687	-	5,164,620	7,816,672
Committed	872,885	-	548,063	-	1,420,948
Assigned	340,254	-	-	-	340,254
Unassigned	7,568,264	-	-	-	7,568,264
Total Fund Balances	<u>9,038,459</u>	<u>2,410,687</u>	<u>548,063</u>	<u>5,186,144</u>	<u>17,183,353</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 24,205,227</u>	<u>\$ 2,422,079</u>	<u>\$ 548,063</u>	<u>\$ 5,617,523</u>	<u>\$ 32,792,892</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, 2016**

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<b>Total Governmental Fund Balances</b>	<b>\$ 17,183,353</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	70,185,742
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	11,575,589
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	1,618,222
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(205,011)
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	 (8,097,649) (22,385,399) (283,098) <u>(26,134,319)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 43,457,430</u></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, 2016**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Real estate and personal property taxes, net	\$ 42,348,608	\$ 477,125	\$ -	\$ -	\$ 42,825,733
Intergovernmental	16,548,929	132,667	-	5,601,031	22,282,627
Motor vehicle and other excises	2,240,573	-	-	-	2,240,573
Licenses and permits	400,290	-	-	-	400,290
Departmental and other revenue	383,866	-	57,258	4,257,494	4,698,618
Penalties and interest on taxes	223,629	-	-	-	223,629
Fines and fees	78,200	-	-	-	78,200
Investment income	69,332	11,369	3,596	1,838	86,135
Contributions and donations	-	-	-	101,095	101,095
Other income	-	-	-	35,098	35,098
<b>Total Revenues</b>	<b>62,293,427</b>	<b>621,161</b>	<b>60,854</b>	<b>9,996,556</b>	<b>72,971,998</b>
<b>Expenditures</b>					
Current:					
General government	1,868,467	718,373	-	407,761	2,994,601
Public safety	3,774,679	-	-	646,745	4,421,424
Education	32,228,633	-	-	5,694,661	37,923,294
Public works	2,925,386	-	-	640,014	3,565,400
Health and human services	574,270	-	-	202,008	776,278
Culture and recreation	632,629	-	-	1,875,413	2,508,042
Fringe benefits	6,006,185	-	-	-	6,006,185
Pensions	7,140,612	-	-	-	7,140,612
Debt service:					
Principal maturities	4,020,000	-	-	-	4,020,000
Interest	1,208,907	-	-	-	1,208,907
State and county tax assessments	365,298	-	-	-	365,298
<b>Total Expenditures</b>	<b>60,745,066</b>	<b>718,373</b>	<b>-</b>	<b>9,466,602</b>	<b>70,930,041</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,548,361</b>	<b>(97,212)</b>	<b>60,854</b>	<b>529,954</b>	<b>2,041,957</b>
<b>Other Financing Sources</b>					
Proceeds from the issuance of bonds	-	-	-	1,725,000	1,725,000
Premiums from bond issuance	792,913	-	-	-	792,913
Proceeds from refunding bonds	7,920,000	-	-	-	7,920,000
Repayment of refunding bonds	(8,580,000)	-	-	-	(8,580,000)
Transfers in	1,258,844	-	1,187,878	340,000	2,786,722
Transfers out	(1,395,656)	(150,000)	(1,198,844)	(17,778)	(2,762,278)
<b>Total Other Financing Sources, Net</b>	<b>(3,899)</b>	<b>(150,000)</b>	<b>(10,966)</b>	<b>2,047,222</b>	<b>1,882,357</b>
<b>Net Change in Fund Balances</b>	<b>1,544,462</b>	<b>(247,212)</b>	<b>49,888</b>	<b>2,577,176</b>	<b>3,924,314</b>
<b>Fund Balances - Beginning of year</b>	<b>7,493,997</b>	<b>2,657,899</b>	<b>498,175</b>	<b>2,608,968</b>	<b>13,259,039</b>
<b>Fund Balances - End of year</b>	<b>\$ 9,038,459</b>	<b>\$ 2,410,687</b>	<b>\$ 548,063</b>	<b>\$ 5,186,144</b>	<b>\$ 17,183,353</b>

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, 2016**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 3,924,314**

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 2016:

Capital outlays	4,332,690	
Depreciation	<u>(3,038,918)</u>	1,293,772

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 2016, the following activity was recorded:

Debt issuances	(1,725,000)	
Proceeds from refunding bonds	(7,920,000)	
Payments on refunding bonds	8,580,000	
Premiums from bond issuance	(792,913)	
Amortization of bond premiums	103,394	
Debt maturities	<u>4,020,000</u>	2,265,481

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	(13,500)	
Accrued interest	(10,463)	
Other postemployment benefits	341,363	
Pension benefits	<u>(533,561)</u>	(216,161)

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.

(2,105,010)

**Change in Net Position of Governmental Activities** **\$ 5,162,396**

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2016**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,882,170	\$ 116,770	\$ 2,998,940
User charges receivable	1,486,846	-	1,486,846
Total Current Assets	4,369,016	116,770	4,485,786
Noncurrent assets:			
Land	-	1,000,000	1,000,000
Capital assets, net of accumulated depreciation	15,386,053	1,276,547	16,662,600
<b>Total Assets</b>	<b>19,755,069</b>	<b>2,393,317</b>	<b>22,148,386</b>
<b>Deferred Outflows of Resources</b>			
Pensions	73,594	-	73,594
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	97,858	-	97,858
Interest expense payable	40,313	-	40,313
Deposits	-	3,492	3,492
Current portion of long-term debt	621,547	90,000	711,547
Total Current Liabilities	759,718	93,492	853,210
Noncurrent liabilities:			
Long-term debt	5,968,777	320,200	6,288,977
Other postemployment benefits	165,516	-	165,516
Net pension liability	1,018,050	-	1,018,050
Total Current Liabilities	7,152,343	320,200	7,472,543
<b>Total Liabilities</b>	<b>7,912,061</b>	<b>413,692</b>	<b>8,325,753</b>
<b>Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>			
Net investment in capital assets	8,795,729	1,866,347	10,662,076
Unrestricted	3,120,873	113,278	3,234,151
<b>Total Net Position</b>	<b>\$ 11,916,602</b>	<b>\$ 1,979,625</b>	<b>\$ 13,896,227</b>

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, 2016**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Operating Revenues</b>			
Charges for services	\$ 4,703,916	\$ 232,779	\$ 4,936,695
Total Operating Revenues	4,703,916	232,779	4,936,695
<b>Operating Expenses</b>			
Operating costs	1,459,805	-	1,459,805
Depreciation expense	569,979	48,840	618,819
Total Operating Expenses	2,029,784	48,840	2,078,624
<b>Operating Income</b>	2,674,132	183,939	2,858,071
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	-	405	405
Interest expense	(241,457)	(9,229)	(250,686)
Transfers out, net	-	(24,444)	(24,444)
Total Nonoperating Revenues (Expenses), Net	(241,457)	(33,268)	(274,725)
<b>Change in Net Position</b>	2,432,675	150,671	2,583,346
<b>Net Position - Beginning of year</b>	9,483,927	1,828,954	11,312,881
<b>Net Position - End of year</b>	<u>\$ 11,916,602</u>	<u>\$ 1,979,625</u>	<u>\$ 13,896,227</u>

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from users	\$ 4,237,472	\$ 251,880	\$ 4,489,352
Payments to vendors and employees	(1,385,313)	(19,101)	(1,404,414)
Net Cash Provided by Operating Activities	<u>2,852,159</u>	<u>232,779</u>	<u>3,084,938</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers out	-	(24,444)	(24,444)
Net Cash Used for Noncapital Related Financing Activities	<u>-</u>	<u>(24,444)</u>	<u>(24,444)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of property and equipment	(582,755)	-	(582,755)
Principal payments on bonds payable	(604,676)	(95,000)	(699,676)
Interest expense	(247,780)	(9,229)	(257,009)
Net Cash Used for Capital and Related Financing Activities	<u>(1,435,211)</u>	<u>(104,229)</u>	<u>(1,539,440)</u>
<b>Cash Flows from Investing Activities</b>			
Interest income	-	405	405
Net Cash Provided by Investing Activities	<u>-</u>	<u>405</u>	<u>405</u>
<b>Increase in Cash and Cash Equivalents</b>	1,416,948	104,511	1,521,459
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>1,465,222</u>	<u>12,259</u>	<u>1,477,481</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 2,882,170</u></u>	<u><u>\$ 116,770</u></u>	<u><u>\$ 2,998,940</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:</b>			
Operating income	\$ 2,674,132	\$ 183,939	\$ 2,858,071
Depreciation expense	569,979	48,840	618,819
Changes in assets and liabilities:			
Receivables	(466,444)	-	(466,444)
Accounts payable and accrued expenses	74,492	-	74,492
Net Cash Provided by Operating Activities	<u><u>\$ 2,852,159</u></u>	<u><u>\$ 232,779</u></u>	<u><u>\$ 3,084,938</u></u>

See accompanying notes to basic financial statements.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016**

	<u>OPEB Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 61,611	\$ 484,094
Investments	6,426,846	-
Police details outstanding	-	26,603
<b>Total Assets</b>	<u>6,488,457</u>	<u>510,697</u>
<b>LIABILITIES</b>		
Warrants payable	-	17,846
Held on behalf of students	-	225,373
Performance deposits	-	152,804
Other agency liabilities	-	114,674
<b>Total Liabilities</b>	<u>-</u>	<u>510,697</u>
<b>NET POSITON HELD IN TRUST FOR</b>		
Other postemployment benefits	<u>6,488,457</u>	<u>-</u>
<b>Net Position</b>	<u><u>\$ 6,488,457</u></u>	<u><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, 2016**

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	<u>OPEB Trust</u>
<b>Additions:</b>	
Town contributions	\$ 1,508,750
Investment income:	
Interest and dividends	171,138
Net realized gain on sale of investments	144,027
Net unrealized loss in fair value of investments	(171,651)
Less: investment management fees	<u>(35,278)</u>
Net investment income	<u>108,236</u>
<b>Total Additions</b>	<u>1,616,986</u>
<b>Deductions</b>	<u>-</u>
<b>Change in Fiduciary Net Position</b>	<u>1,616,986</u>
<b>Fiduciary Net Position - Beginning of year</b>	<u>4,871,471</u>
<b>Fiduciary Net Position - End of year</b>	<u><u>\$ 6,488,457</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, 2016

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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.

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. Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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

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

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

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2016:

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 250,487	\$ 250,487	\$ -	\$ -
Municipal obligations	2,386,439	2,386,439	-	-
Corporate bonds	751,610	751,610	-	-
Total debt securities	3,388,536	3,388,536	-	-
Equity securities	15,006	15,006	-	-
Mutual funds	251,994	251,994	-	-
State Retirees Benefits Trust Fund	6,426,846	-	6,426,846	-
Total investments by fair value level	\$ 10,082,382	\$ 3,655,536	\$ 6,426,846	\$ -

Debt securities, equities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The Town’s investment in the State Retirees Benefits Trust Fund is classified in Level 2 based on the composition and fair value of underlying investments

contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

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 into pension expense within the next five years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town 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	15,691	-	-	-	15,691
Restricted:					
General government	-	2,410,687	-	295,341	2,706,028
Public safety	-	-	-	712,780	712,780
Education	-	-	-	3,158,555	3,158,555
Public works	-	-	-	31,687	31,687
Health and human services	-	-	-	45,644	45,644
Culture and recreation	-	-	-	506,205	506,205
Debt service	241,365	-	-	-	241,365
Capital projects	-	-	-	267,301	267,301
Expendable trust funds	-	-	-	147,107	147,107
Committed:					
General government	69,108	-	548,063	-	617,171
Public safety	46,344	-	-	-	46,344
Education	245,467	-	-	-	245,467
Public works	332,087	-	-	-	332,087
Health and human services	160,510	-	-	-	160,510
Culture and recreation	19,369	-	-	-	19,369
Assigned:					
General government	19,384	-	-	-	19,384
Public safety	2,805	-	-	-	2,805
Education	173,466	-	-	-	173,466
Public works	144,599	-	-	-	144,599
Unassigned:					
Unrestricted	2,684,872	-	-	-	2,684,872
Stabilization fund	4,883,392	-	-	-	4,883,392
	<u>\$ 9,038,459</u>	<u>\$ 2,410,687</u>	<u>\$ 548,063</u>	<u>\$ 5,186,144</u>	<u>\$ 17,183,353</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 \$4,883,392 at June 30, 2016 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 \$872,885 of encumbrances from Town Meeting in the general fund as committed and \$340,254 of encumbrances from normal purchasing activity as assigned at June 30, 2016. There are no encumbrances reported in other funds.

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

The Town did not incur any fund or appropriation deficits during the year.

#### **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 any repurchase agreements.

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the 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, 2016, all of the Town’s bank deposits were fully insured by the federal depository insurance or other depositors’ insurance or third party collateralization.



At June 30, 2016, the Town had the following investments:

		Maturity in Years		
	Fair Value	Less than Year	1 to 5 Years	6 to 10 Years
Investments				
<u>Debt securities:</u>				
U.S. Government obligations	\$ 2,636,926	\$ -	\$ 2,636,926	\$ -
Corporate fixed income	751,610	150,057	601,553	-
Total investments with maturities	3,388,536	\$ 150,057	\$ 3,238,479	\$ -
<u>Other investments:</u>				
State Retirees Benefits Trust Fund	6,426,846			
Equities	15,006			
Mutual funds	251,994			
Total Investments	\$ 10,082,382			

At June 30, 2016, the Town classified money market accounts and certificates of deposit with fair values of \$12,712,677 and \$1,179,430, respectively, as cash equivalents due to the liquid nature of these instruments.

*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, 2016, the Town maintained an investment in the State Retirees Benefits Trust Fund of \$6,426,846, 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.

*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 of less.

*Concentration of Credit Risk* – The Town’s investment in PRIM represents nearly 64% of the Town’s total investments at June 30, 2016. No other individual investment exceeded 5% of the Town’s total investments.

*Credit Risk* – The Town has not adopted a formal policy related to credit risk. Of the Town’s investments in corporate fixed income, \$400,625 was rated by Moody’s Investors Service (“Moody’s”) as A2, \$350,985 was rated Baa1. All of the Town’s government securities were rated Aaa by Moody’s.

## B. Receivables

At June 30, 2016, receivables for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Property taxes	\$ 544,746	\$ -	\$ 544,746
Tax liens and foreclosures	1,438,199	-	1,438,199
Motor vehicle excise taxes	171,819	-	171,819
Ambulance	502,139	(293,816)	208,323
Departmental	2,655	-	2,655
Intergovernmental:			
Due from the MSBA	9,357,036	-	9,357,036
Due from the MCWT	17,718	-	17,718
Due from the Commonwealth - other	625,429	-	625,429
Total	<u>\$ 12,659,741</u>	<u>\$ (293,816)</u>	<u>\$ 12,365,925</u>

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2016 consisted entirely of user charges receivable from the Town's water operations. No amounts were provided as allowances for uncollectible accounts in the business-type activities.

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, 2016 in the governmental funds:

	General Fund	Community Preservation	Nonmajor Funds	Total
Property taxes	\$ 373,251	\$ 6,588	\$ -	\$ 379,839
Tax liens and foreclosures	1,438,199	-	-	1,438,199
Motor vehicle excise taxes	171,819	-	-	171,819
Ambulance	-	-	208,323	208,323
Departmental	2,655	-	-	2,655
Intergovernmental:				
Due from the MSBA	9,357,036	-	-	9,357,036
Due from the MCWT	17,718	-	-	17,718
Total	<u>\$ 11,360,678</u>	<u>\$ 6,588</u>	<u>\$ 208,323</u>	<u>\$ 11,575,589</u>

Massachusetts School Building Authority Assistance Reimbursement – As of June 30, 2016, the Town expects to receive approximately \$11.0 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 (\$9,357,036) is included in the governmental funds as an intergovernmental receivable.

### C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 4,977,175	\$ 660,125	\$ -	\$ 5,637,300
Construction in-process	-	65,000	-	65,000
Total capital assets not being depreciated	4,977,175	725,125	-	5,702,300
Capital assets being depreciated:				
Buildings and improvements	82,299,214	1,924,209	-	84,223,423
Infrastructure	9,586,121	1,068,237	-	10,654,358
Machinery and equipment	5,555,239	471,002	(56,800)	5,969,441
Vehicles	3,485,273	144,117	(57,459)	3,571,931
Total capital assets being depreciated	100,925,847	3,607,565	(114,259)	104,419,153
Less accumulated depreciation for:				
Buildings and improvements	(29,834,429)	(2,084,841)	-	(31,919,270)
Infrastructure	(1,304,628)	(216,936)	-	(1,521,564)
Machinery and equipment	(3,349,622)	(508,878)	56,800	(3,801,700)
Vehicles	(2,522,373)	(228,263)	57,459	(2,693,177)
Total accumulated depreciation	(37,011,052)	(3,038,918)	114,259	(39,935,711)
Total capital assets being depreciated, net	63,914,795	568,647	-	64,483,442
Governmental activities capital assets, net	\$ 68,891,970	\$ 1,293,772	\$ -	\$ 70,185,742

For the fiscal year ended June 30, 2016, depreciation expense was charged to functions/programs as follows:

#### **Governmental Activities:**

General government	\$ 95,287
Public safety	528,973
Education	1,943,699
Public works	399,473
Health and human services	12,556
Culture and recreation	58,930
	<u>\$ 3,038,918</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	489,160	-	5,760,421
Machinery and equipment	975,951	-	-	975,951
Vehicles	208,379	93,595	(48,474)	253,500
Total capital assets being depreciated	21,221,223	582,755	(48,474)	21,755,504
Less accumulated depreciation for:				
Buildings and improvements	(5,013,093)	(369,141)	-	(5,382,234)
Infrastructure	(270,357)	(131,181)	-	(401,538)
Machinery and equipment	(398,712)	(50,832)	-	(449,544)
Vehicles	(165,784)	(18,825)	48,474	(136,135)
Total accumulated depreciation	(5,847,946)	(569,979)	48,474	(6,369,451)
Total capital assets being depreciated, net	15,373,277	12,776	-	15,386,053
Total Net Business-type Activities: Water	15,373,277	12,776	-	15,386,053
<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	(628,223)	(48,840)	-	(677,063)
Total accumulated depreciation	(628,223)	(48,840)	-	(677,063)
Total capital assets being depreciated, net	1,325,387	(48,840)	-	1,276,547
Total Net Business-type Activities: Golf	2,325,387	(48,840)	-	2,276,547
Total Net Business-type Activities	\$ 17,698,664	\$ (36,064)	\$ -	\$ 17,662,600

For the fiscal year ended June 30, 2016, depreciation expense was charged to functions/programs as follows:

**Business-type Activities:**

Water	\$ 569,979
Golf	48,840
	<u>\$ 618,819</u>

## D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2016 were as follows:

Transfers Out	Transfers In				Total	
	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Golf Enterprise Fund		
General Fund	\$ -	\$ 1,187,878	\$ 190,000	\$ 17,778	\$ 1,395,656	(1)
Community Preservation Fund	-	-	150,000	-	150,000	(2)
Capital Reserve Fund	1,198,844	-	-	-	1,198,844	(3)
Nonmajor Governmental Funds	-	-	-	17,778	17,778	(4)
Golf Enterprise Fund	60,000	-	-	-	60,000	(5)
	<u>\$ 1,258,844</u>	<u>\$ 1,187,878</u>	<u>\$ 340,000</u>	<u>\$ 35,556</u>	<u>\$ 2,822,278</u>	

- (1) Transfer from the general fund to the capital reserve fund, to nonmajor funds for ambulance operations and to the golf enterprise fund to correct a prior year revenue misposting.
- (2) Transfer to housing trust fund.
- (3) Transfer from capital reserve fund to the general fund for articles.
- (4) Transfer from revolving funds to golf enterprise fund to correct a prior year revenue misposting.
- (5) 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.

The Town did not have any temporary borrowing activity during the fiscal year ended June 30, 2016.

## F. Long-term Obligations

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

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, 2016 was approximately \$113.8 million based on an equalized valuation of approximately \$2.3 billion.

On February 4, 2016, the Town issued general obligation refunding bonds of \$11,075,000 (par value) with variable interest rates between 2.0% and 5.0% for the purpose of refunding \$11,980,000 of callable general obligation bonds originally issued in February 2006 with variable interest rates between 3.0% and 5.0%. The 2016 general obligation bonds are payable at various times through December 1, 2025, which was consistent with the paydown periods of the 2006 general obligation bonds. As a result of the current refunding, the Town reduced its total debt service requirements by \$1,166,774, which resulted in an economic gain of \$1,117,333.

The following reflects the changes in long-term liability balances for the year ended June 30, 2016:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 28,399,800	\$ 1,725,000	\$ (4,680,000)	\$ 25,444,800	\$ 4,340,000
Unamortized bond premium	-	792,913	(103,394)	689,519	294,463
Compensated absences	269,598	13,500	-	283,098	141,549
Other postemployment benefits	8,439,012	2,381,085	(2,722,448)	8,097,649	-
Net pension liability	20,302,178	3,863,107	(1,779,886)	22,385,399	-
Total Governmental Activities	<u>\$ 57,410,588</u>	<u>\$ 8,775,605</u>	<u>\$ (9,285,728)</u>	<u>\$ 56,900,465</u>	<u>\$ 4,776,012</u>
<i>Business-type Activities:</i>					
Water					
General obligation bonds and notes payable	\$ 7,195,000	\$ -	\$ (831,128)	\$ 6,363,872	\$ 568,325
Unamortized bond premium	-	245,000	(18,548)	226,452	53,222
Other postemployment benefits	160,918	35,650	(31,052)	165,516	-
Net pension liability	923,309	176,371	(81,630)	1,018,050	-
Golf					
General obligation bonds and notes payable	505,200	-	(95,000)	410,200	90,000
Total Business-type Activities	<u>\$ 8,784,427</u>	<u>\$ 457,021</u>	<u>\$ (1,057,358)</u>	<u>\$ 8,184,090</u>	<u>\$ 711,547</u>
Total Long-term Obligations	<u>\$ 66,195,015</u>	<u>\$ 9,232,626</u>	<u>\$ (10,343,086)</u>	<u>\$ 65,084,555</u>	<u>\$ 5,487,559</u>

The liabilities in the governmental activities will be liquidated by the general fund. The business-type liabilities will be liquidated by the enterprise fund reporting the liabilities.

The following is a summary of outstanding long-term debt obligations outstanding at June 30, 2016:

Description	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 28,324,800	\$ 9,645,000	\$ (12,585,000)	\$ 25,384,800
MCWT Note	various	75,000	-	(15,000)	60,000
Total Governmental Activities		28,399,800	9,645,000	(12,600,000)	25,444,800
Add: Unamortized bond premium		-	792,913	(103,394)	689,519
Total Governmental Activities, net		<u>\$ 28,399,800</u>	<u>\$ 10,437,913</u>	<u>\$ (12,703,394)</u>	<u>\$ 26,134,319</u>
<i>Business-type Activities - Water:</i>					
General obligation bonds	3.25 - 5.0%	\$ 4,695,000	\$ 3,155,000	\$ (3,885,000)	\$ 3,965,000
MCWT Note	2.00%	2,500,000	-	(101,128)	2,398,872
Total Water		7,195,000	3,155,000	(3,986,128)	6,363,872
Add: Unamortized bond premium		-	245,000	(18,548)	226,452
Total Water, net		<u>7,195,000</u>	<u>3,400,000</u>	<u>(4,004,676)</u>	<u>6,590,324</u>
<i>Business-type Activities - Golf:</i>					
General obligation bond	3.50 - 5.00%	505,200	-	(95,000)	410,200
Total Business-type Activities, net		<u>\$ 7,700,200</u>	<u>\$ 3,400,000</u>	<u>\$ (4,099,676)</u>	<u>\$ 7,000,524</u>
Total Bond and Note Debt		<u>\$ 36,100,000</u>			<u>\$ 32,445,324</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							
2017	\$ 4,340,000	\$ (4,185)	\$ 4,335,815	\$ 1,093,431	\$ (2,155)	\$ 1,091,276	\$ 5,427,091
2018	4,465,000	(4,323)	4,460,677	893,994	(1,631)	892,363	5,353,040
2019	4,610,000	(4,524)	4,605,476	684,481	(1,118)	683,363	5,288,839
2020	4,740,000	(4,686)	4,735,314	464,575	(412)	464,163	5,199,477
2021	2,699,800	-	2,699,800	301,038	-	301,038	3,000,838
2022 - 2026	3,840,000	-	3,840,000	464,943	-	464,943	4,304,943
2027 - 2029	750,000	-	750,000	57,588	-	57,588	807,588
Total	<u>\$25,444,800</u>	<u>\$ (17,718)</u>	<u>\$25,427,082</u>	<u>\$ 3,960,050</u>	<u>\$ (5,316)</u>	<u>\$ 3,954,734</u>	<u>\$29,381,816</u>
Bonded Debt - Business-type Activities:							
Business-type Activities: Water							
2016	\$ 568,325	\$ -	\$ 568,325	\$ 202,577	\$ -	\$ 202,577	\$ 770,902
2017	565,571	-	565,571	177,386	-	177,386	742,957
2018	567,865	-	567,865	152,275	-	152,275	720,140
2019	575,210	-	575,210	126,992	-	126,992	702,202
2020	577,605	-	577,605	101,538	-	101,538	679,143
2022 - 2026	2,250,816	-	2,250,816	247,639	-	247,639	2,498,455
2027 - 2031	669,006	-	669,006	99,663	-	99,663	768,669
2032 - 2035	589,474	-	589,474	29,791	-	29,791	619,265
Total	<u>\$ 6,363,872</u>	<u>\$ -</u>	<u>\$ 6,363,872</u>	<u>\$ 1,137,861</u>	<u>\$ -</u>	<u>\$ 1,137,861</u>	<u>\$ 7,501,733</u>
(continued)							

(continued)

<i>Business-type Activities: Golf</i>							
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	<u>\$ 410,200</u>	<u>\$ -</u>	<u>\$ 410,200</u>	<u>\$ 23,395</u>	<u>\$ -</u>	<u>\$ 23,395</u>	<u>\$ 433,595</u>
<i>Business-type Activities: Total</i>							
2016	\$ 658,325	\$ -	\$ 658,325	\$ 210,856	\$ -	\$ 210,856	\$ 869,181
2017	655,571	-	655,571	183,865	-	183,865	839,436
2018	657,865	-	657,865	156,954	-	156,954	814,819
2019	665,210	-	665,210	129,871	-	129,871	795,081
2020	627,805	-	627,805	102,617	-	102,617	730,422
2021 - 2025	2,250,816	-	2,250,816	247,639	-	247,639	2,498,455
2026 - 2030	669,006	-	669,006	99,663	-	99,663	768,669
2031 - 2035	589,474	-	589,474	29,791	-	29,791	619,265
Total	<u>\$ 6,774,072</u>	<u>\$ -</u>	<u>\$ 6,774,072</u>	<u>\$ 1,161,256</u>	<u>\$ -</u>	<u>\$ 1,161,256</u>	<u>\$ 7,935,328</u>
(concluded)							

Authorized and Unissued Debt – At June 30, 2016, the Town has no authorized and unissued debt.

### 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, 2015 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, 2015 was as follows:

Active members	10,306
Inactive members	1,748
Disabled members	429
Retirees and beneficiaries currently receiving benefits	<u>4,859</u>
	<u>17,342</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 the current fiscal year.

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 2016, which exceeded the actuarially-determined contribution requirement for the fiscal year by \$85,414. The Town's contributions as a percentage of covered payroll was approximately 19% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$23,403,449 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, 2015. 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 1.81% at December 31, 2015 versus approximately 1.77% at December 31, 2014. As a result, the Town recognized a deferred outflow in fiscal year 2016 related to its increased proportionate share of the collective net pension liability of the Retirement System.

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, 2015, 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 \$2,419,340 in pension expense in the statement of activities in fiscal year 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,193,396	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	498,420	-
Town contributions subsequent to the measurement date	-	-
	<u>\$ 1,691,816</u>	<u>\$ -</u>

The deferred outflows of resources at June 30, 2016 are expected to be recognized in the Town's pension expense as follows:

Year ended June 30,	
2017	\$ 427,554
2018	427,554
2019	427,554
2020	<u>409,154</u>
	<u>\$ 1,691,816</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 January 1, 2014 (the date of the latest actuarial valuation) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	19.60%	6.49%
International equity – developed markets	15.60%	7.16%
International equity – emerging markets	6.50%	9.46%
Core fixed income	15.30%	1.68%
High-yield fixed income	8.30%	4.76%
Real estate	9.90%	4.37%
Commodities	3.90%	4.13%
Short-term government money market	0%	1.11%
Hedge fund, GTTA, Risk parity	9.80%	3.60%
Private equity	11.10%	11.04%

**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 (6.875%)	Current Discount (7.875%)	1% Increase (8.875%)
Town's proportionate share of the net pension liability	\$ 28,103,125	\$ 23,403,449	\$ 19,401,344

## 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, 2016, the Commonwealth contributed \$5,429,371 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 approximately 0.33%, 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	\$ 66,939,276	\$ 66,939,276	\$ -
Pension expense	5,429,371	5,429,371	-

The Town recognized \$5,429,371 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, 2016.

### **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, 2016 (the date of the latest actuarial valuation report), the number of participants in the Plan consisted of 574 active employees and 324 retired/disabled employees, which include spouses, for a total of 898 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")	\$ 3,910,177	\$ 55,111	\$ 3,965,288
Interest on net OPEB obligation	506,342	9,655	515,997
Amortization of actuarial gains	(1,457,051)	(18,088)	(1,475,139)
Adjustment to ARC	(578,383)	(11,028)	(589,411)
Annual OPEB cost	2,381,085	35,650	2,416,735
Contributions made	(2,722,448)	(31,052)	(2,753,500)
Increase in net OPEB obligation	(341,363)	4,598	(336,765)
Net OPEB obligation - beginning of year	8,439,012	160,918	8,599,930
Net OPEB obligation - end of year	\$ 8,097,649	\$ 165,516	\$ 8,263,165

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, 2016	\$ 2,416,735	114%	\$ 8,263,165
June 30, 2015	2,584,897	235%	8,599,930
June 30, 2014	2,432,810	49%	12,101,949

\* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: general government \$84,767; public safety \$264,975; public works \$60,705; health and human services \$35,550; culture and recreation \$43,152; education \$1,891,936; and water enterprise \$35,650.

**Funding Status and Funding Progress** – The funded status of the Plan at June 30, 2016 for the most recent actuarial valuation performed as of June 30, 2016, 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)
6/30/2016	\$ 6,426,846	\$ 33,668,166	\$ 27,241,320	19.1%	n/a	n/a

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 (June 30, 2016) are as follows:

Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of Plan assets as of valuation date
Discount rate	6.00%
Amortization of UAAL	Amortized increasing at 3.5% per year over 30 years at transition
Remaining amortization period	22 years at June 30, 2016
General inflation assumption	2.75% per annum
Annual compensation increases	3.00% per annum
Mortality assumptions	For both pre-retirement and post-retirement, the RP-2000 Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Participation rate	75% of employees eligible to receive retirement benefits will enroll in the retiree medical and dental plans upon retirement
Healthcare cost trend rate	5.0% increase each year
Remaining amortization period	30 0years (closed) as of July 1, 2013
Amortization method	Payments increasing at 3.5%

## 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, 2016, 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, 2016.

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 over \$60.0 million at June 30, 2016.

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 February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed 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 became effective for the Town in fiscal year 2016 and did not have a material effect on its 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 was 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 established 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 established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were 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 provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its 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 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced 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 became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB 79 established criteria for which an external investment pool may qualify to measure its investment value at amortized cost versus fair value. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

## **B. Future Year Implementations**

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 August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state or local governmental employer. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. 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, 2016, approximately 27% 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 \$1,198,082 at June 30, 2016. A single tax payer represented \$771,187, or over 64%, of this total. A significant portion of this tax title receivable is aged over five years.

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**TOWN OF HOLLISTON, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2016**

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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,	
	2015	2014
Town's proportion of the net pension liability (asset)	1.814194%	1.766853%
Town's proportionate share of the net pension liability (asset)	\$ 23,403	\$ 21,225
Town's covered-employee payroll	\$ 10,191	\$ 9,799
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	229.6%	216.6%
Plan fiduciary net position as a percentage of the total pension liability	46.13%	47.65%

**SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN**  
*(dollar amounts are in thousands)*

	Year Ended December 31,	
	2015	2014
Actuarially determined contribution	\$ 1,862	\$ 1,910
Contributions in relation to the actuarially determined contribution	<u>1,947</u>	<u>1,947</u>
Contribution deficiency (excess)	<u>\$ (85)</u>	<u>\$ (37)</u>
Town's covered-employee payroll	\$ 10,191	\$ 9,799
Contributions as a percentage of covered-employee payroll	19.1%	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 - MTRS  
YEAR ENDED JUNE 30, 2016**

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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,	
	2015	2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,021,930	\$ 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 - OPEB**  
**YEAR ENDED JUNE 30, 2016**

**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)
6/30/2016	\$ 6,426,846	\$ 33,668,166	\$ 27,241,320	19.1%	n/a	n/a
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

**SCHEDULES OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2016	\$ 2,416,735	\$ 2,753,500	113.9%
2015	2,584,897	6,086,916	235.5%
2014	2,432,810	1,182,330	48.6%

See accompanying independent auditors' report.

**TOWN OF HOLLISTON, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2016**

	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	\$ 42,391,548	\$ 42,391,548	\$ 42,376,449		\$ 42,376,449	\$ (15,099)
Intergovernmental	11,024,030	11,024,030	11,119,558		11,119,558	95,528
Motor vehicle and other excises	2,000,048	2,000,048	2,240,573		2,240,573	240,525
License and permits	365,000	365,000	400,290		400,290	35,290
Departmental and other revenue	351,220	351,220	366,088		366,088	14,868
Penalties and interest on taxes	140,000	140,000	223,629		223,629	83,629
Fines and forfeitures	55,000	55,000	78,200		78,200	23,200
Investment income	20,000	20,000	42,316		42,316	22,316
Total Revenues	56,346,846	56,346,846	56,847,103		56,847,103	500,257
<b>EXPENDITURES</b>						
General government	2,645,256	2,645,256	1,868,467	\$ 88,493	1,956,960	688,296
Public safety	4,095,387	4,095,387	3,774,679	49,148	3,823,827	271,560
Education	32,938,666	32,938,666	32,228,633	418,933	32,647,566	291,100
Public works	3,478,493	3,478,493	2,925,386	476,686	3,402,072	76,421
Health and human services	751,074	751,074	574,270	160,510	734,780	16,294
Culture and recreation	654,485	654,485	632,629	19,369	651,998	2,487
Fringe benefits	6,531,352	6,531,352	6,006,185	-	6,006,185	525,167
Pensions	1,825,910	1,825,910	1,711,241	-	1,711,241	114,669
Debt service	5,336,423	5,336,423	5,333,136	-	5,333,136	3,287
State and county tax assessments	395,247	395,247	365,298	-	365,298	29,949
Total Expenditures	58,652,293	58,652,293	55,419,924	1,213,139	56,633,063	2,019,230
<b>OTHER FINANCING SOURCES (USES)</b>						
Premium from debt issuance	-	-	132,913	-	132,913	132,913
Transfers in	537,037	537,037	1,363,073	-	1,363,073	826,036
Transfers out	(2,730,684)	(2,730,684)	(3,211,562)	-	(3,211,562)	(480,878)
Total Other Financing Sources (Uses)	(2,193,647)	(2,193,647)	(1,715,576)	-	(1,715,576)	478,071
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(4,499,094)	(4,499,094)	\$ (288,397)	\$ (1,213,139)	\$ (1,501,536)	\$ 2,997,558
Other budget items:						
Prior year encumbrances	1,606,604	1,606,604				
From available surplus (free cash)	2,782,784	2,782,784				
From available surplus (overlay)	147,000	147,000				
Other	(37,294)	(37,294)				
Total other budget items	4,499,094	4,499,094				
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, 2016

### 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.

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			\$ 56,847,103
On behalf payments	\$ 5,429,371	\$ -	5,429,371
Revenue recognition - 60-day receivable effect	(27,840)	-	(27,840)
Revenue recognition - other	17,778	-	17,778
Stabilization interest - GASB 54 impact	-	27,015	27,015
Revenues on a GAAP basis	<u>\$ 5,419,309</u>	<u>\$ 27,015</u>	<u>\$ 62,293,427</u>
Expenditures on a budgetary basis			\$ 55,419,924
Debt service treated as transfers out	\$ -	\$ (104,229)	(104,229)
On behalf payments	5,429,371	-	5,429,371
Expenditures on a GAAP basis	<u>\$ 5,429,371</u>	<u>\$ (104,229)</u>	<u>\$ 60,745,066</u>
Net transfers on a budgetary basis			\$ (1,848,488)
Stabilization transfers - GASB 54 impact	\$ -	\$ 1,833,683	1,833,683
Revenue recognition - other	(17,778)	-	(17,778)
Debt service treated as transfers out	-	(104,229)	(104,229)
Net transfers on a GAAP basis	<u>\$ (17,778)</u>	<u>\$ 1,729,454</u>	<u>\$ (136,812)</u>