

TOWN OF HOLLISTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information

Year Ended June 30, 2017

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, 2017, 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, 2017, 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 net pension liability and contributions to pension plan, the schedule of the Commonwealth's collective share of the Massachusetts Teachers' Retirement System's net pension liability, the funding progress and contribution funding for other postemployment benefits, the schedules of changes in net other postemployment liability, ratios and contributions, schedule of investment returns for other postemployment benefit plans 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 February 28, 2018, 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
February 28, 2018

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, 2017. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by nearly \$64.7 million (*total net position*). The Town's total net position increased by approximately \$7.3 million in 2017. The net position in governmental activities increased nearly \$5.1 million while the net position in the business-type activities increased nearly \$2.3 million. These increases were relatively consistent with the increases in fiscal year 2016.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities. However, this deficit has been steadily decreasing, which has been due primarily to the Town's substantial commitment to funding its other postemployment benefit, or OPEB, obligations.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$20.4 million, which is approximately \$3.3 million higher than the prior year. This increase was due primarily to an increase in the fund balances of the general fund, capital reserve fund and nonmajor funds of approximately \$1.5 million, \$1.1 million and \$0.7 million, respectively. Of the ending fund balance, almost \$6.0 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 \$6.0 million, which represents over 9% percent of the total fiscal year 2017 general fund expenditures. The June 30, 2017 total general fund balance of nearly \$10.6 million was over 16% of the total fiscal year 2017 general fund expenditures.
- The Town's total gross long-term debt obligations decreased over \$5.9 million during the current fiscal year, which was entirely due to scheduled repayments and maturities of general obligation bonds and other long-term debt.
- The Town will adopt a new accounting standard in fiscal year 2018 relative to OPEB. The Town will be required to present in its government-wide and proprietary fund financial statements its net OPEB *liability*. Under the current accounting standards, the Town presents its net OPEB *obligation* in the government-wide and proprietary fund financial statements, which at June 30, 2017 was over \$13.2 million lower than its net OPEB *liability*. The adoption of this accounting standard, like the Town's adoption of the pension accounting standard in fiscal year 2015, will have a material impact on the Town's unrestricted net position in the affected financial statements. The Town expects to restate beginning balances in its fiscal 2018 financial statements as a result of the implementation of this accounting standard.

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 Statements Analysis

The following table presents the condensed comparative statements of net position:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	June 30,		June 30,		June 30,	
	2017	2016	2017	2016	2017	2016
<u>Assets</u>						
Current and other assets	\$ 36,660,606	\$ 32,792,892	\$ 5,907,536	\$ 4,485,786	\$ 42,568,142	\$ 37,278,678
Capital assets, net	69,136,455	70,185,742	17,692,307	17,662,600	86,828,762	87,848,342
Total Assets	<u>105,797,061</u>	<u>102,978,634</u>	<u>23,599,843</u>	<u>22,148,386</u>	<u>129,396,904</u>	<u>125,127,020</u>
<u>Deferred Outflows of Resources</u>						
Pensions	<u>2,868,242</u>	<u>1,618,222</u>	<u>130,443</u>	<u>73,594</u>	<u>2,998,685</u>	<u>1,691,816</u>
<u>Liabilities</u>						
Long-term liabilities	52,716,707	56,900,465	7,512,174	8,184,090	60,228,881	65,084,555
Other liabilities	6,360,300	4,238,961	78,818	141,663	6,439,118	4,380,624
Total Liabilities	<u>59,077,007</u>	<u>61,139,426</u>	<u>7,590,992</u>	<u>8,325,753</u>	<u>66,667,999</u>	<u>69,465,179</u>
<u>Deferred Inflows of Resources</u>						
Pensions	<u>1,002,664</u>	<u>-</u>	<u>45,599</u>	<u>-</u>	<u>1,048,263</u>	<u>-</u>
<u>Net Position</u>						
Net investment in capital assets	55,317,036	53,408,459	11,403,330	10,662,076	66,720,366	64,070,535
Restricted	8,417,239	7,833,649	-	-	8,417,239	7,833,649
Unrestricted	(15,148,643)	(17,784,678)	4,690,365	3,234,151	(10,458,278)	(14,550,527)
Total Net Position	<u>\$ 48,585,632</u>	<u>\$ 43,457,430</u>	<u>\$ 16,093,695</u>	<u>\$ 13,896,227</u>	<u>\$ 64,679,327</u>	<u>\$ 57,353,657</u>

As noted earlier, net position may service over time as a useful indicated of a government's financial position. The Town's total net position increased by over \$7.3 million in fiscal year 2017. This increase was relatively consistent with the approximate \$7.7 million increase in 2016.

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, 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, 2017 and 2016. The deficit balance in unrestricted net position in the governmental activities is primarily the result of the accumulated OPEB obligation and the Town's net pension liability, which totaled over \$30.9 million and \$1.2 million at June 30, 2017 in the governmental and business-type activities, respectively.

The following table presents the condensed comparative statements of activities:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 5,939,451	\$ 5,239,064	\$ 4,553,234	\$ 4,936,695	\$ 10,492,685	\$ 10,175,759
Operating grants and contributions	19,356,175	17,444,804	-	-	19,356,175	17,444,804
Capital grants and contributions	1,135,512	770,999	-	-	1,135,512	770,999
General revenues:						
Property taxes	44,912,451	43,156,464	-	-	44,912,451	43,156,464
Intergovernmental	1,281,037	1,677,404	-	-	1,281,037	1,677,404
Other	2,678,477	2,578,253	103	405	2,678,580	2,578,658
Total revenues	<u>75,303,103</u>	<u>70,866,988</u>	<u>4,553,337</u>	<u>4,937,100</u>	<u>79,856,440</u>	<u>75,804,088</u>
Expenses:						
General government	3,708,525	2,659,168	-	-	3,708,525	2,659,168
Public safety	6,341,302	6,479,627	-	-	6,341,302	6,479,627
Education	52,967,852	49,823,651	-	-	52,967,852	49,823,651
Public works	4,372,157	3,292,415	-	-	4,372,157	3,292,415
Health and human services	800,472	895,275	-	-	800,472	895,275
Culture and recreation	1,286,003	1,462,924	-	-	1,286,003	1,462,924
Debt service	758,590	1,115,976	-	-	758,590	1,115,976
Water	-	-	2,211,904	2,271,241	2,211,904	2,271,241
Golf	-	-	83,965	58,069	83,965	58,069
Total expenses	<u>70,234,901</u>	<u>65,729,036</u>	<u>2,295,869</u>	<u>2,329,310</u>	<u>72,530,770</u>	<u>68,058,346</u>
Increase in net position	5,068,202	5,137,952	2,257,468	2,607,790	7,325,670	7,745,742
Transfers	<u>60,000</u>	<u>24,444</u>	<u>(60,000)</u>	<u>(24,444)</u>	<u>-</u>	<u>-</u>
Change in net position	5,128,202	5,162,396	2,197,468	2,583,346	7,325,670	7,745,742
Net position - beginning of year	43,457,430	38,295,034	13,896,227	11,312,881	57,353,657	49,607,915
Net position - end of year	<u>\$ 48,585,632</u>	<u>\$ 43,457,430</u>	<u>\$ 16,093,695</u>	<u>\$ 13,896,227</u>	<u>\$ 64,679,327</u>	<u>\$ 57,353,657</u>

Governmental Activities. Property taxes made up approximately 60% and 61% of total governmental activities revenues in fiscal years 2017 and 2016, respectively. The gross dollar increase in property taxes was consistent with proposition 2 ½ limitations plus new growth. Operating grants represented approximately 26% and 25% of total governmental activities revenues in fiscal years 2017 and 2016, respectively. The gross dollar increases of \$1.9 million is due to the Town's special funding situation with respect to teacher pensions and distributions from the Commonwealth; these increased \$1.9 million as a result of the completion of a new actuarial study conducted by the Commonwealth and represented almost all of the increase. Similarly, since this is a special funding situation, the education expense, see below, also increased. No other revenues or dollar changes in revenue were significant individually between fiscal 2017 and 2016.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 75% and 76% of total fiscal year 2017 and 2016 governmental activities expenses, respectively and in gross dollars increased by about \$3.1 million. About \$1.9 million was due to a special funding situation as described under revenue above; \$0.3 million was due to a write-off of the remaining book value of the Flagg School, with the remainder due to increasing programs supported by grants and taxation. Public Works expenses increased by almost \$1.1 million; this was due to an increase in benefits allocation and to less items capitalized as capital assets and

instead, recorded as maintenance, than in the prior year. No other expense or dollar changes in expense were significant individually between fiscal 2017 and 2016.

Business-type Activities. The Town reports the activities of its water and golf enterprise funds as business-type activities. Revenues in the Town's water fund decreased year-over-year due to the effects of usage restrictions and bans that began early in fiscal year 2017 and continued through the majority of fiscal year 2017. Operating expenses in the business-type activities were consistent year-over-year.

The general obligation bonds used to finance the Town's purchase of the Pinecrest Golf Club are set to mature in May 2021.

Governmental Funds Financial Statements Analysis

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$20.4 million, which was nearly \$3.3 million higher than the prior year. This increase was due primarily to an increase in the fund balances of the general fund, capital reserve fund and nonmajor funds of approximately \$1.5 million, \$1.1 million and \$0.7 million, respectively. Of the ending fund balance, almost \$6.0 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 \$6.0 million, while total fund balance was nearly \$10.6 million. In fiscal year 2017, the fund balance in the general fund increased approximately \$1.5 million as revenues received exceeded forecasts due to the continued expansion in the economy and expenditures were under budget due to continued budget controls. 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 over 9% of total fiscal year 2017 general fund expenditures, while total fund balance represents over 16% 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, 2017 and was consistent with the prior year.

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, increased nearly \$1.1 million in fiscal year 2017 to approximately \$1.6 million at June 30, 2017. The Town recently approved certain financial policies whereby it set goals on specific funding levels for, among other areas, its capital reserve fund. Accordingly, the increase in its fund balance is due primarily to the Town committing funds to meet these goals.

The remainder of the governmental funds are either (1) nonspendable consisting of the corpus of an endowment of almost \$22,000; or (2) restricted due to constraints placed externally by third-parties in the amount of over \$5.8 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 \$16.1 million in the aggregate. The water enterprise's net position increased over \$2.1 million in fiscal year 2017 while the golf enterprise's net position increased approximately \$68,000. The increase in the water fund's net position is due primarily to the effects of an infrastructure fee that began in fiscal year 2016 and generates an additional approximate \$2.3 million annually for the water enterprise; the proceeds of this assessment are intended to be used for water main replacements and other service upgrades.

Fiduciary Funds. The Town reports the financial position and results of activities of its OPEB Trust and agency funds in its fiduciary funds financial statements. The OPEB Trust fund's net position increased over \$2.5 million in 2017. This increase was due primarily to budgeted contributions of \$1.5 million in fiscal year 2017 by the Town together with strong investment performance; the OPEB Trust portfolio returned nearly 14%, net of investment management fees, in fiscal year 2017. Agency funds are currently presented only in the statement of net position and represent funds on deposit with the Town Treasurer that are held on behalf of others. Changes to agency funds balances are generally a result of timing.

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, 2017, the Town's investment in capital assets for its governmental and business-type activities approximated \$69.1 million and \$17.7 million, respectively. Governmental net capital assets decreased over \$1.0 million in fiscal year 2017 while business-type net capital assets were consistent with the prior year.

The decrease in governmental activities capital assets was due to depreciation expense exceeding current year additions. Also, in fiscal year 2017, the Town demolished the Flagg School, which resulted in the write-off of approximately \$0.3 million in net book value associated with certain Flagg School capital assets. This write-off is included in fiscal year 2017 depreciation expense for the Town's educational programs.

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 \$27.8 million, which represents a decrease of approximately \$5.9 million from the prior year and was entirely due to scheduled repayments and maturities on general obligation bonds and other long-term debt.

As of June 30, 2017, the Town expects to receive reimbursements from the Massachusetts School Business Authority for the repayment of long-term debt principal of approximately \$7.7 million and future interest in the amount of approximately \$0.8 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 \$119.9 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 median household income of the Town is approximately 64% greater than the state-wide median. Furthermore, the Town's unemployment rates are significantly better than both the state-wide and national averages.
- The median residential home value is approximately 24% greater than the state-wide median. 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.
- The Town expects to receive approximately \$9.6 million in state aid in fiscal year 2018, net of state and county assessments, which is approximately \$28,000 less than the previous fiscal year.

These factors were considered in preparing the Town's budget for the 2018 fiscal year, which was adopted at Town Meeting in May 2017. The Town certified its tax rate for fiscal 2018 on December 4, 2017.

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, 2017**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 19,142,101	\$ 4,511,110	\$ 23,653,211
Investments	3,793,658	-	3,793,658
Receivables, net of allowance for uncollectible accounts:			
Property taxes	2,227,571	-	2,227,571
User charges, fees and other	299,288	1,396,426	1,695,714
Motor vehicle excise taxes	122,712	-	122,712
Intergovernmental	8,672,068	-	8,672,068
Prepaid expenses	2,390,124	-	2,390,124
Other current assets	13,084	-	13,084
Land	6,635,543	1,000,000	7,635,543
Depreciable capital assets, net of accumulated depreciation	62,500,912	16,692,307	79,193,219
 Total Assets	 <u>105,797,061</u>	 <u>23,599,843</u>	 <u>129,396,904</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	<u>2,868,242</u>	<u>130,443</u>	<u>2,998,685</u>
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	4,190,510	38,938	4,229,448
Other liabilities	884,081	3,492	887,573
Interest expense payable	172,889	36,388	209,277
Unearned revenue	112,820	-	112,820
Short-term notes payable	1,000,000	-	1,000,000
Noncurrent liabilities:			
Due in one year or less	4,826,175	701,155	5,527,330
Due in more than one year	47,890,532	6,811,019	54,701,551
 Total Liabilities	 <u>59,077,007</u>	 <u>7,590,992</u>	 <u>66,667,999</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>1,002,664</u>	<u>45,599</u>	<u>1,048,263</u>
NET POSITION			
Net investment in capital assets	55,317,036	11,403,330	66,720,366
Restricted for:			
Community preservation	2,405,604	-	2,405,604
Perpetual funds	281,221	-	281,221
Debt service	166,468	-	166,468
Other purposes	5,563,946	-	5,563,946
Unrestricted	<u>(15,148,643)</u>	<u>4,690,365</u>	<u>(10,458,278)</u>
 Total Net Position	 <u>\$ 48,585,632</u>	 <u>\$ 16,093,695</u>	 <u>\$ 64,679,327</u>

See accompanying notes to basic financial statements.

TOWN OF HOLLISTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

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
Governmental Activities:							
General government	\$ 3,708,525	\$ 512,606	\$ 49,498	\$ 147,445	\$ (2,998,976)		\$ (2,998,976)
Public safety	6,341,302	1,220,923	95,935	-	(5,024,444)		(5,024,444)
Education	52,967,852	3,342,575	18,114,645	-	(31,510,632)		(31,510,632)
Public works	4,372,157	254,368	3,400	260,000	(3,854,389)		(3,854,389)
Health and human services	800,472	180,746	93,610	-	(526,116)		(526,116)
Culture and recreation	1,286,003	428,233	500,855	728,067	371,152		371,152
Interest expense	758,590	-	498,232	-	(260,358)		(260,358)
Total Governmental Activities	70,234,901	5,939,451	19,356,175	1,135,512	(43,803,763)		(43,803,763)
Business-type Activities:							
Water	2,211,904	4,340,844	-	-	-	\$ 2,128,940	2,128,940
Golf	83,965	212,390	-	-	-	128,425	128,425
Total Primary Government	\$ 72,530,770	\$ 10,492,685	\$ 19,356,175	\$ 1,135,512	(43,803,763)	2,257,365	(41,546,398)
General Revenues:							
					44,912,451	-	44,912,451
					2,355,431	-	2,355,431
					261,283	-	261,283
					1,281,037	-	1,281,037
					61,763	103	61,866
					60,000	(60,000)	-
					48,931,965	(59,897)	48,872,068
					5,128,202	2,197,468	7,325,670
Net Position:							
					43,457,430	13,896,227	57,353,657
					\$ 48,585,632	\$ 16,093,695	\$ 64,679,327

See accompanying notes to basic financial statements.

TOWN OF HOLLISTON, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 9,843,067	\$ 1,674,292	\$ 1,630,001	\$ 5,994,741	\$ 19,142,101
Investments	3,022,922	755,730	-	15,006	3,793,658
Receivables, net of allowance for uncollectible accounts:					
Property taxes	2,214,957	12,614	-	-	2,227,571
Motor vehicle excise taxes and other	134,906	-	-	287,094	422,000
Due from other governments	7,688,970	-	-	983,098	8,672,068
Prepaid expenses	2,390,124	-	-	-	2,390,124
Other assets	13,084	-	-	-	13,084
Total Assets	<u>25,308,030</u>	<u>2,442,636</u>	<u>1,630,001</u>	<u>7,279,939</u>	<u>36,660,606</u>
Deferred Outflows of Resources					
	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 25,308,030</u>	<u>\$ 2,442,636</u>	<u>\$ 1,630,001</u>	<u>\$ 7,279,939</u>	<u>\$ 36,660,606</u>
Liabilities					
Warrants and accounts payable	\$ 4,026,781	\$ 16,051	\$ -	\$ 147,678	\$ 4,190,510
Other liabilities	875,714	-	-	-	875,714
Unearned revenue	112,820	8,367	-	-	121,187
Short-term note payable	-	-	-	1,000,000	1,000,000
Total Liabilities	<u>5,015,315</u>	<u>24,418</u>	<u>-</u>	<u>1,147,678</u>	<u>6,187,411</u>
Deferred Inflows of Resources					
Unavailable revenue - property taxes	1,906,202	12,614	-	-	1,918,816
Unavailable revenue - motor vehicle excise and other	134,906	-	-	287,094	422,000
Unavailable revenue - intergovernmental	7,688,970	-	-	-	7,688,970
Total Deferred Inflows of Resources	<u>9,730,078</u>	<u>12,614</u>	<u>-</u>	<u>287,094</u>	<u>10,029,786</u>
Fund Balances					
Nonspendable	2,403,208	-	-	21,524	2,424,732
Restricted	166,468	2,405,604	-	5,823,643	8,395,715
Committed	1,321,567	-	1,630,001	-	2,951,568
Assigned	665,732	-	-	-	665,732
Unassigned	6,005,662	-	-	-	6,005,662
Total Fund Balances	<u>10,562,637</u>	<u>2,405,604</u>	<u>1,630,001</u>	<u>5,845,167</u>	<u>20,443,409</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 25,308,030</u>	<u>\$ 2,442,636</u>	<u>\$ 1,630,001</u>	<u>\$ 7,279,939</u>	<u>\$ 36,660,606</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, 2017

Total Governmental Fund Balances	\$ 20,443,409
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	69,136,455
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	10,029,786
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	1,865,578
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(172,889)
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	(7,792,645) (23,136,180) (293,026) <u>(21,494,856)</u>
Net Position of Governmental Activities	<u><u>\$ 48,585,632</u></u>

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, 2017**

	General	Community Preservation	Capital Reserve	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Real estate and personal property taxes	\$ 44,310,371	\$ 501,301	\$ -	\$ -	\$ 44,811,672
Intergovernmental	18,537,222	99,843	-	4,725,733	23,362,798
Motor vehicle and other excises	2,404,538	-	-	-	2,404,538
Licenses and permits	547,698	-	-	-	547,698
Departmental and other revenue	835,561	-	120,416	4,053,708	5,009,685
Penalties and interest on taxes	261,283	-	-	-	261,283
Fines and fees	67,200	-	-	-	67,200
Investment income	50,364	4,988	5,166	1,245	61,763
Contributions and donations	-	-	-	95,710	95,710
Other income	-	-	-	226,558	226,558
Total Revenues	67,014,237	606,132	125,582	9,102,954	76,848,905
Expenditures					
Current:					
General government	2,436,363	161,215	-	619,365	3,216,943
Public safety	4,354,396	-	-	193,588	4,547,984
Education	32,165,533	-	-	5,863,337	38,028,870
Public works	3,331,360	-	-	324,428	3,655,788
Health and human services	576,705	-	-	103,164	679,869
Culture and recreation	608,202	-	-	1,344,255	1,952,457
Fringe benefits	6,674,177	-	-	-	6,674,177
Pensions	9,092,828	-	-	-	9,092,828
Debt service:					
Principal maturities	4,340,000	-	-	-	4,340,000
Interest	1,090,175	-	-	-	1,090,175
State and county tax assessments	369,758	-	-	-	369,758
Total Expenditures	65,039,497	161,215	-	8,448,137	73,648,849
Excess of Revenues over Expenditures	1,974,740	444,917	125,582	654,817	3,200,056
Other Financing Sources					
Transfers in	1,959,587	-	2,410,149	300,000	4,669,736
Transfers out	(2,410,149)	(450,000)	(1,453,793)	(295,794)	(4,609,736)
Total Other Financing Sources, Net	(450,562)	(450,000)	956,356	4,206	60,000
Change in Fund Balances	1,524,178	(5,083)	1,081,938	659,023	3,260,056
Fund Balances - Beginning of year	9,038,459	2,410,687	548,063	5,186,144	17,183,353
Fund Balances - End of year	\$ 10,562,637	\$ 2,405,604	\$ 1,630,001	\$ 5,845,167	\$ 20,443,409

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, 2017**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 3,260,056

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	2,344,416	
Depreciation	<u>(3,393,703)</u>	(1,049,287)

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:

Amortization of bond premiums	299,463	
Debt maturities	<u>4,340,000</u>	4,639,463

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	(9,928)	
Accrued interest	32,122	
Other postemployment benefits	305,004	
Pension benefits	<u>(503,425)</u>	(176,227)

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.

(1,545,803)

Change in Net Position of Governmental Activities \$ 5,128,202

See accompanying notes to basic financial statements.

TOWN OF HOLLISTON, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 4,366,972	\$ 144,138	\$ 4,511,110
User charges receivable	1,396,426	-	1,396,426
Total Current Assets	5,763,398	144,138	5,907,536
Noncurrent assets:			
Land	-	1,000,000	1,000,000
Capital assets, net of accumulated depreciation	15,464,600	1,227,707	16,692,307
Total Assets	21,227,998	2,371,845	23,599,843
Deferred Outflows of Resources			
Pensions	130,443	-	130,443
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	38,938	-	38,938
Interest expense payable	36,388	-	36,388
Deposits	-	3,492	3,492
Current portion of long-term debt	611,155	90,000	701,155
Total Current Liabilities	686,481	93,492	779,973
Noncurrent liabilities:			
Long-term debt	5,357,622	230,200	5,587,822
Other postemployment benefits	171,003	-	171,003
Net pension liability	1,052,194	-	1,052,194
Total Current Liabilities	6,580,819	230,200	6,811,019
Total Liabilities	7,267,300	323,692	7,590,992
Deferred Inflows of Resources			
Pensions	45,599	-	45,599
Net Position			
Net investment in capital assets	9,495,823	1,907,507	11,403,330
Unrestricted	4,549,719	140,646	4,690,365
Total Net Position	\$ 14,045,542	\$ 2,048,153	\$ 16,093,695

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, 2017**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
Operating Revenues			
Charges for services	\$ 4,340,844	\$ 212,390	\$ 4,553,234
Total Operating Revenues	4,340,844	212,390	4,553,234
Operating Expenses			
Operating costs	1,469,950	26,846	1,496,796
Depreciation expense	596,524	48,840	645,364
Total Operating Expenses	2,066,474	75,686	2,142,160
Operating Income	2,274,370	136,704	2,411,074
Nonoperating Revenues (Expenses)			
Interest income	-	103	103
Interest expense	(145,430)	(8,279)	(153,709)
Transfers out, net	-	(60,000)	(60,000)
Total Nonoperating Revenues (Expenses), Net	(145,430)	(68,176)	(213,606)
Change in Net Position	2,128,940	68,528	2,197,468
Net Position - Beginning of year	11,916,602	1,979,625	13,896,227
Net Position - End of year	\$ 14,045,542	\$ 2,048,153	\$ 16,093,695

See accompanying notes to basic financial statements.

TOWN OF HOLLISTON, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-type Activities Enterprise Funds		
	Water	Golf	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 4,431,264	\$ 212,390	\$ 4,643,654
Payments to employees and related personnel costs	(728,587)	-	(728,587)
Payments to vendors	(771,902)	(26,846)	(798,748)
Net Cash Provided by Operating Activities	<u>2,930,775</u>	<u>185,544</u>	<u>3,116,319</u>
Cash Flows from Noncapital Financing Activities			
Transfers out	-	(60,000)	(60,000)
Net Cash Used for Noncapital Related Financing Activities	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of property and equipment	(675,071)	-	(675,071)
Principal payments on bonds payable	(621,547)	(90,000)	(711,547)
Interest expense	(149,355)	(8,279)	(157,634)
Net Cash Used for Capital and Related Financing Activities	<u>(1,445,973)</u>	<u>(98,279)</u>	<u>(1,544,252)</u>
Cash Flows from Investing Activities			
Interest income	-	103	103
Net Cash Provided by Investing Activities	<u>-</u>	<u>103</u>	<u>103</u>
Increase in Cash and Cash Equivalents	1,484,802	27,368	1,512,170
Cash and Cash Equivalents - Beginning of year	<u>2,882,170</u>	<u>116,770</u>	<u>2,998,940</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,366,972</u>	<u>\$ 144,138</u>	<u>\$ 4,511,110</u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:			
Operating income	\$ 2,274,370	\$ 136,704	\$ 2,411,074
Depreciation expense	596,524	48,840	645,364
Changes in assets and liabilities:			
Receivables	90,420	-	90,420
Accounts payable and accrued expenses	(30,539)	-	(30,539)
Net Cash Provided by Operating Activities	<u>\$ 2,930,775</u>	<u>\$ 185,544</u>	<u>\$ 3,116,319</u>

See accompanying notes to basic financial statements.

TOWN OF HOLLISTON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	<u>OPEB Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 500,350
Investments	9,002,047	-
Police details outstanding	-	17,580
Total Assets	<u>9,002,047</u>	<u>517,930</u>
LIABILITIES		
Warrants payable	-	40,303
Held on behalf of students	-	244,622
Performance deposits	-	143,717
Other agency liabilities	-	89,288
Total Liabilities	<u>-</u>	<u>517,930</u>
NET POSITON HELD IN TRUST FOR		
Other postemployment benefits	<u>9,002,047</u>	<u>-</u>
Net Position	<u>\$ 9,002,047</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, 2017**

	<u>OPEB Trust</u>
Additions:	
Contributions:	
Town	\$ 2,619,037
Retirees	<u>779,945</u>
Total contributions	<u>3,398,982</u>
Investment income:	
Interest and dividends	243,949
Net realized gain on sale of investments	326,203
Net unrealized loss in fair value of investments	491,738
Less: investment management fees	<u>(48,300)</u>
Net investment income	<u>1,013,590</u>
Total Additions	<u>4,412,572</u>
Deductions	
Benefits paid	<u>1,898,982</u>
Change in Fiduciary Net Position	<u>2,513,590</u>
Fiduciary Net Position - Beginning of year	<u>6,488,457</u>
Fiduciary Net Position - End of year	<u>\$ 9,002,047</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, 2017

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 from kindergarten to grade 12, water services, street maintenance, library, 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 GAAP.

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
Prepaid expenses and inventory	2,403,208	-	-	-	2,403,208
Restricted:					
General government	-	2,405,604	-	215,593	2,621,197
Public safety	-	-	-	591,269	591,269
Education	-	-	-	4,075,899	4,075,899
Public works	-	-	-	38,413	38,413
Health and human services	-	-	-	61,619	61,619
Culture and recreation	-	-	-	572,408	572,408
Debt service	166,468	-	-	-	166,468
Capital projects	-	-	-	8,745	8,745
Expendable trust funds	-	-	-	259,697	259,697
Committed:					
General government	603,977	-	1,630,001	-	2,233,978
Public safety	252,219	-	-	-	252,219
Education	201,300	-	-	-	201,300
Public works	219,404	-	-	-	219,404
Health and human services	30,063	-	-	-	30,063
Culture and recreation	14,604	-	-	-	14,604
Assigned:					
Education	578,627	-	-	-	578,627
Other purposes	87,105	-	-	-	87,105
Unassigned:					
Unrestricted	1,175,154	-	-	-	1,175,154
Stabilization fund	4,830,508	-	-	-	4,830,508
	<u>\$ 10,562,637</u>	<u>\$ 2,405,604</u>	<u>\$ 1,630,001</u>	<u>\$ 5,845,167</u>	<u>\$ 20,443,409</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 stabilization is reported in the unassigned fund balance in the General Fund.

Encumbrances – The Town’s encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal, approved purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted or committed are included within the classification of those fund balances and not reported separately. The Town reports \$1,321,567 of encumbrances from Town Meeting in the general fund as committed and \$665,732 of encumbrances from normal purchasing activity as assigned at June 30, 2017. 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.

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 remaining investments not categorized under the fair value hierarchy as shown as being valued at either amortized cost or at net asset value (“NAV”). These are investments in non-governmental entities for which readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

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, 2017:

<u>Investments by Fair Value Level</u>	<u>June 30, 2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Treasury bonds	\$ 494,932	\$ 494,932	\$ -	\$ -
U.S. Government agency obligations	2,080,171	2,080,171	-	-
Corporate bonds	<u>952,697</u>	<u>952,697</u>	<u>-</u>	<u>-</u>
Total debt securities	<u>3,527,800</u>	<u>3,527,800</u>	<u>-</u>	<u>-</u>
Equity securities	15,006	15,006	-	-
Mutual funds	<u>250,852</u>	<u>250,852</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>3,793,658</u>	<u>\$ 3,793,658</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV				
State Retirees Benefit Trust Fund	<u>9,002,047</u>			
Total investments at fair value	<u>\$ 12,795,705</u>			

Debt and equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

The State Retirees Benefit Trust Fund (“SRBT”) is administered by the Commonwealth of Massachusetts’ Pension Reserve Investment Management Board, or PRIM. The SRBT holds a diverse set of investments that include private equity, distressed debt, derivatives, venture and real estate investments. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the SRBT are generally more liquid than investments in private equity and real estate holdings, but

generally cannot be resold to third parties. The Town may liquidate its investments in the SRBT funds at any time with less than thirty days' notice. Distributions from the SRBT funds are received regularly and deposited into an accompanying short-term cash investment account.

At June 30, 2017, the Town had the following investments:

Investments	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	6 to 10 Years
<u>Debt securities:</u>				
U.S. Government obligations	\$ 2,575,103	\$ -	\$ 2,575,103	\$ -
Corporate fixed income	<u>952,697</u>	<u>599,576</u>	<u>353,121</u>	<u>-</u>
Total investments with maturities	<u>3,527,800</u>	<u>\$ 599,576</u>	<u>\$ 2,928,224</u>	<u>\$ -</u>
<u>Other investments:</u>				
State Retirees Benefits Trust Fund	9,002,047			
Equities	15,006			
Mutual funds	<u>250,852</u>			
Total Investments	<u>\$ 12,795,705</u>			

The Town classifies money market accounts and certificates of deposit as cash equivalents due to the liquid nature of these instruments.

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.

Of the Town's investments in corporate fixed income, \$449,421 was rated by Moody's Investors Service ("Moody's") as A2 and \$503,276 was rated Baa1. All of the Town's government securities were rated Aaa by Moody's.

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, 2017, all of the Town's bank deposits were fully insured by the federal depository insurance or other depositors' insurance or third-party collateralization.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. At June 30, 2017, the Town's investments in the SRBT are 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 or less.

Concentration of Credit Risk – The Town’s investment in SRBT represents approximately 70% of the Town’s total investments at June 30, 2017. No other individual investment exceeded 5% of the Town’s total investments.

B. Receivables

At June 30, 2017, 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	\$ 749,799	\$ -	\$ 749,799
Tax liens and foreclosures	1,477,772	-	1,477,772
Motor vehicle excise taxes	122,712	-	122,712
Ambulance	607,094	(320,000)	287,094
Departmental	12,194	-	12,194
Intergovernmental:			
Due from the MSBA	7,675,437	-	7,675,437
Due from the MCWT	13,533	-	13,533
Due from the Commonwealth - other	983,098	-	983,098
Total	\$ 11,641,639	\$ (320,000)	\$ 11,321,639

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2017 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, 2017 in the governmental funds:

	General Fund	Community Preservation	Nonmajor Funds	Total
Property taxes	\$ 428,430	\$ 12,614	\$ -	\$ 441,044
Tax liens and foreclosures	1,477,772	-	-	1,477,772
Motor vehicle excise taxes	122,712	-	-	122,712
Ambulance	-	-	287,094	287,094
Departmental	12,194	-	-	12,194
Intergovernmental:				
Due from the MSBA	7,675,437	-	-	7,675,437
Due from the MCWT	13,533	-	-	13,533
Total	\$ 9,730,078	\$ 12,614	\$ 287,094	\$ 10,029,786

Massachusetts School Building Authority Assistance Reimbursement – As of June 30, 2017, the Town expects to receive approximately \$8,475,000 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 net present value of these future payments is included in the governmental funds as an intergovernmental receivable.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 5,637,300	\$ 998,243	\$ -	\$ 6,635,543
Construction in-process	65,000	-	(65,000)	-
Total capital assets not being depreciated	<u>5,702,300</u>	<u>998,243</u>	<u>(65,000)</u>	<u>6,635,543</u>
Capital assets being depreciated:				
Buildings and improvements	84,223,423	566,688	(1,398,200)	83,391,911
Infrastructure	10,654,358	210,000	-	10,864,358
Machinery and equipment	5,969,441	434,833	(212,161)	6,192,113
Vehicles	3,571,931	199,652	(823,415)	2,948,168
Total capital assets being depreciated	<u>104,419,153</u>	<u>1,411,173</u>	<u>(2,433,776)</u>	<u>103,396,550</u>
Less accumulated depreciation for:				
Buildings and improvements	(31,919,270)	(2,443,285)	1,398,200	(32,964,355)
Infrastructure	(1,521,564)	(240,478)	-	(1,762,042)
Machinery and equipment	(3,801,700)	(475,893)	212,161	(4,065,432)
Vehicles	(2,693,177)	(234,047)	823,415	(2,103,809)
Total accumulated depreciation	<u>(39,935,711)</u>	<u>(3,393,703)</u>	<u>2,433,776</u>	<u>(40,895,638)</u>
Total capital assets being depreciated, net	<u>64,483,442</u>	<u>(1,982,530)</u>	<u>-</u>	<u>62,500,912</u>
Governmental activities capital assets, net	<u>\$ 70,185,742</u>	<u>\$ (984,287)</u>	<u>\$ (65,000)</u>	<u>\$ 69,136,455</u>

For the fiscal year ended June 30, 2017, depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 97,289
Public safety	548,855
Education	2,243,559
Public works	399,335
Health and human services	18,751
Culture and recreation	85,914
	<u>\$ 3,393,703</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type Activities: Water</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 14,765,632	\$ -	\$ -	\$ 14,765,632
Infrastructure	5,760,421	567,059	-	6,327,480
Machinery and equipment	975,951	-	-	975,951
Vehicles	<u>253,500</u>	<u>108,012</u>	<u>(26,030)</u>	<u>335,482</u>
Total capital assets being depreciated	<u>21,755,504</u>	<u>675,071</u>	<u>(26,030)</u>	<u>22,404,545</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,382,234)	(369,141)	-	(5,751,375)
Infrastructure	(401,538)	(142,966)	-	(544,504)
Machinery and equipment	(449,544)	(50,832)	-	(500,376)
Vehicles	<u>(136,135)</u>	<u>(33,585)</u>	<u>26,030</u>	<u>(143,690)</u>
Total accumulated depreciation	<u>(6,369,451)</u>	<u>(596,524)</u>	<u>26,030</u>	<u>(6,939,945)</u>
Total capital assets being depreciated, net	<u>15,386,053</u>	<u>78,547</u>	<u>-</u>	<u>15,464,600</u>
Total Net Business-type Activities: Water	<u>15,386,053</u>	<u>78,547</u>	<u>-</u>	<u>15,464,600</u>
<u>Business-type Activities: Golf</u>				
Capital assets not being depreciated:				
Land	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total capital assets not being depreciated	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Capital assets being depreciated:				
Buildings and improvements	<u>1,953,610</u>	<u>-</u>	<u>-</u>	<u>1,953,610</u>
Total capital assets being depreciated	<u>1,953,610</u>	<u>-</u>	<u>-</u>	<u>1,953,610</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>(677,063)</u>	<u>(48,840)</u>	<u>-</u>	<u>(725,903)</u>
Total accumulated depreciation	<u>(677,063)</u>	<u>(48,840)</u>	<u>-</u>	<u>(725,903)</u>
Total capital assets being depreciated, net	<u>1,276,547</u>	<u>(48,840)</u>	<u>-</u>	<u>1,227,707</u>
Total Net Business-type Activities: Golf	<u>2,276,547</u>	<u>(48,840)</u>	<u>-</u>	<u>2,227,707</u>
Total Net Business-type Activities	<u>\$ 17,662,600</u>	<u>\$ 29,707</u>	<u>\$ -</u>	<u>\$ 17,692,307</u>

For the fiscal year ended June 30, 2017, depreciation expense was charged to functions/programs as follows:

<u>Business-type Activities:</u>	
Water	\$ 596,524
Golf	<u>48,840</u>
	<u>\$ 645,364</u>

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2017 were as follows:

Transfers Out	Transfers In			Total	
	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ 2,410,149	\$ -	\$ 2,410,149	(1)
Community Preservation Fund	150,000	-	300,000	450,000	(2)
Capital Reserve Fund	1,453,793	-	-	1,453,793	(3)
Nonmajor Governmental Funds	295,794	-	-	295,794	(4)
Golf Enterprise Fund	60,000	-	-	60,000	(5)
	<u>\$ 1,959,587</u>	<u>\$ 2,410,149</u>	<u>\$ 300,000</u>	<u>\$ 4,669,736</u>	

- (1) Transfer from the general fund to the capital reserve fund.
- (2) Transfer to general fund and housing trust fund for affordable housing purposes.
- (3) Transfer from capital reserve fund to the general fund for articles.
- (4) Transfer from ambulance receipts reserved fund of \$116,000 to assist in financing new ambulance, \$150,000 from open space to assist in land purchases and \$29,794 to close out various revolving funds.
- (5) Transfer of operating costs from the golf enterprise to the general fund.

E. Temporary Debt

The Town 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 or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANs”), grant anticipation notes or state aid anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount 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 following summarizes the activity in temporary debt for fiscal year 2017:

Type	Interest Rate	Maturity Date	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
BAN	1.24%	8/15/18	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000

A BAN was secured in fiscal year 2017 to finance roadway and traffic signal improvements.

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 following reflects the changes in long-term liability balances for the year ended June 30, 2017:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 25,444,800	\$ -	\$ (4,340,000)	\$ 21,104,800	\$ 4,465,000
Unamortized bond premium	689,519	-	(299,463)	390,056	214,662
Compensated absences	283,098	9,928	-	293,026	146,513
Other postemployment benefits	8,097,649	2,514,161	(2,819,165)	7,792,645	-
Net pension liability	<u>22,385,399</u>	<u>2,644,984</u>	<u>(1,894,203)</u>	<u>23,136,180</u>	<u>-</u>
Total Governmental Activities	<u>\$ 56,900,465</u>	<u>\$ 5,169,073</u>	<u>\$ (9,352,831)</u>	<u>\$ 52,716,707</u>	<u>\$ 4,826,175</u>
<i>Business-type Activities:</i>					
Water					
General obligation bonds and notes payable	\$ 6,363,872	\$ -	\$ (568,325)	\$ 5,795,547	\$ 565,571
Unamortized bond premium	226,452	-	(53,222)	173,230	45,584
Other postemployment benefits	165,516	37,642	(32,155)	171,003	-
Net pension liability	1,018,050	118,861	(84,717)	1,052,194	-
Golf					
General obligation bonds and notes payable	<u>410,200</u>	<u>-</u>	<u>(90,000)</u>	<u>320,200</u>	<u>90,000</u>
Total Business-type Activities	<u>\$ 8,184,090</u>	<u>\$ 156,503</u>	<u>\$ (828,419)</u>	<u>\$ 7,512,174</u>	<u>\$ 701,155</u>
Total Long-term Obligations	<u>\$ 65,084,555</u>	<u>\$ 5,325,576</u>	<u>\$ (10,181,250)</u>	<u>\$ 60,228,881</u>	<u>\$ 5,527,330</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, 2017:

Description	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 25,384,800	\$ -	\$ (4,325,000)	\$ 21,059,800
MCWT Note	various	60,000	-	(15,000)	45,000
Total Governmental Activities		25,444,800	-	(4,340,000)	21,104,800
Add: Unamortized bond premium		689,519	-	(299,463)	390,056
Total Governmental Activities, net		<u>\$ 26,134,319</u>	<u>\$ -</u>	<u>\$ (4,639,463)</u>	<u>\$ 21,494,856</u>
<i>Business-type Activities - Water:</i>					
General obligation bonds	3.25 - 5.0%	\$ 3,965,000	\$ -	\$ (465,000)	\$ 3,500,000
MCWT Note	2.00%	2,398,872	-	(103,325)	2,295,547
Total Water		6,363,872	-	(568,325)	5,795,547
Add: Unamortized bond premium		226,452	-	(53,222)	173,230
Total Water, net		<u>6,590,324</u>	<u>-</u>	<u>(621,547)</u>	<u>5,968,777</u>
<i>Business-type Activities - Golf:</i>					
General obligation bond	3.50 - 5.00%	410,200	-	(90,000)	320,200
Total Business-type Activities, net		<u>\$ 7,000,524</u>	<u>\$ -</u>	<u>\$ (711,547)</u>	<u>\$ 6,288,977</u>
Total Bond and Note Debt		<u>\$ 33,134,843</u>			<u>\$ 27,783,833</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	
<i>Governmental Activities</i>							
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	2,245,000	-	2,245,000	195,263	-	195,263	2,440,263
2023 - 2027	1,935,000	-	1,935,000	301,130	-	301,130	2,236,130
2028 - 2029	410,000	-	410,000	26,138	-	26,138	436,138
Total	<u>\$ 21,104,800</u>	<u>\$ (13,533)</u>	<u>\$ 21,091,267</u>	<u>\$ 2,866,619</u>	<u>\$ (3,161)</u>	<u>\$ 2,863,458</u>	<u>\$ 23,954,725</u>

Bonded Debt - Business-type Activities:

<i>Business-type Activities</i>							
2018	\$ 655,571	\$ -	\$ 655,571	\$ 183,865	\$ -	\$ 183,865	\$ 839,436
2019	657,865	-	657,865	156,954	-	156,954	814,819
2020	665,210	-	665,210	129,871	-	129,871	795,081
2021	627,805	-	627,805	102,617	-	102,617	730,422
2022	585,052	-	585,052	75,911	-	75,911	660,963
2023 - 2027	1,793,874	-	1,793,874	196,897	-	196,897	1,990,771
2028 - 2032	683,546	-	683,546	86,283	-	86,283	769,829
2033 - 2035	446,824	-	446,824	18,001	-	18,001	464,825
Total	<u>\$ 6,115,747</u>	<u>\$ -</u>	<u>\$ 6,115,747</u>	<u>\$ 950,399</u>	<u>\$ -</u>	<u>\$ 950,399</u>	<u>\$ 7,066,146</u>

(continued)

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Business-type Activities: Water</i>							
2018	\$ 565,571	\$ -	\$ 565,571	\$ 177,386	\$ -	\$ 177,386	\$ 742,957
2019	567,865	-	567,865	152,275	-	152,275	720,140
2020	575,210	-	575,210	126,992	-	126,992	702,202
2022	585,052	-	585,052	75,911	-	75,911	660,963
2023 - 2027	1,793,874	-	1,793,874	196,897	-	196,897	1,990,771
2028 - 2032	683,546	-	683,546	86,283	-	86,283	769,829
2033 - 2035	446,824	-	446,824	18,001	-	18,001	464,825
Total	<u>\$ 5,795,547</u>	<u>\$ -</u>	<u>\$ 5,795,547</u>	<u>\$ 935,283</u>	<u>\$ -</u>	<u>\$ 935,283</u>	<u>\$ 6,730,830</u>
<i>Business-type Activities: Golf</i>							
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>\$ 320,200</u>	<u>\$ -</u>	<u>\$ 320,200</u>	<u>\$ 15,116</u>	<u>\$ -</u>	<u>\$ 15,116</u>	<u>\$ 335,316</u>

(concluded)

Authorized and Unissued Debt – At June 30, 2017, the Town has \$500,000 in authorized and unissued debt related to traffic system improvements.

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, 2016 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 participating employers as of December 31, 2016 was as follows:

Active members	9,997
Inactive members	2,317
Disabled members	437
Retirees and beneficiaries currently receiving benefits	<u>4,957</u>
	<u><u>17,708</u></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 \$2,063,637 to the Retirement System in fiscal year 2017, which exceeded the actuarially-determined contribution requirement for the fiscal year by \$84,717. The Town's contributions as a percentage of covered payroll was approximately 20% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$24,188,374 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. A number of changes were made to actuarial assumptions in 2016, the most notable was a decrease in the discount rate to 7.75% from 7.875% per annum and changes to mortality tables.

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 1.71% at December 31, 2016 versus approximately 1.81% at December 31, 2015. As a result, the Town recognized a deferred outflow in fiscal year 2017 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, 2016, 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 \$2,590,653 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, 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	\$ 108,937	\$ -
Changes of assumptions	1,317,939	-
Net difference between projected and actual earnings on pension plan investments	1,004,250	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	567,559	-
Town contributions subsequent to the measurement date	-	1,048,263
	<u>\$ 2,998,685</u>	<u>\$ 1,048,263</u>

The deferred outflows of resources at June 30, 2017 are expected to be recognized in the Town’s pension expense as follows:

<u>Year ended June 30,</u>	
2018	\$ 594,354
2019	594,354
2020	577,040
2021	<u>184,674</u>
	<u>\$ 1,950,422</u>

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Actuarial cost method:	Entry age normal cost method.
Amortization method:	Prior year’s total contribution increased by 6.5% for fiscal 2018 through fiscal 2024, 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, 2016, 3 years remaining for 2002 ERI liability, 4 years remaining for 2003 ERI liability, 6 years remaining for 2010 ERI liability and 19 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:	3.50%

Projected salary increases:	Varies by length of service with ultimate rate of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4).
Cost of living adjustments:	3.0% of the first \$14,000 of retirement income.
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation (previously 7.875%).
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 generationally from 2009 with Scale BB2D.
Post-retirement mortality rates:	The RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D.
Disabled retiree mortality rates:	The RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D.

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, 2016 (the date of the latest actuarial valuation) are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Long-term Expected Asset Allocation
Domestic equity	7.50%	19.50%
International equity	7.83%	16.80%
Emerging markets equity	9.61%	6.90%
Core fixed income	3.75%	12.30%
Value-added fixed income	7.26%	8.30%
Private Equity	9.50%	11.10%
Real estate	6.50%	10.00%
Timber and natural resources	6.00%	3.60%
Hedge funds	6.48%	9.00%
Liquidating portfolios	6.48%	0.40%
Portfolio completion strategies	6.48%	1.10%
Overlay	6.48%	1.00%

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.75%, which was a reduction from the previous discount rate of 7.875%. 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 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town’s proportionate share of the net pension liability	\$ 29,209,662	\$ 24,188,374	\$ 19,994,706

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, 2017, the Commonwealth contributed \$3,604,390 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 0.32%, 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	\$ 71,659,183	\$ 71,659,183	\$ -
Pension expense	7,309,706	7,309,706	-

The Town recognized \$7,309,706 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. 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 Massachusetts General Law, or 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, 2017.

D. Other Postemployment Benefits

In addition to the pension benefits previously described, the Town provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B Section 20 (hereinafter referred to as the "OPEB Plan"). 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 OPEB 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 OPEB Plan.

Under Chapter 32B Section 20, the Town Treasurer is the custodian of the OPEB Plan. The Town has appointed a board of trustees for the OPEB Plan, who together with the Town Treasurer are responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule. OPEB Plan assets are segregated from other funds and shall not be subject to the claims of any general creditor of the Town.

For the year ended June 30, 2017, the Town records its net OPEB obligation under GASB Statement No. 45. However, additional note disclosures are also presented for the Town's OPEB Plan since those note disclosures are required under GASB Statement No. 74. All GASB 45 references and disclosures will be removed from the Town's financial statements in the fiscal year ended June 30, 2018 as they will no longer be applicable upon the Town's adoption of GASB Statement No. 75 in fiscal year 2018. Refer to Note IV for additional details on current year and future year accounting pronouncements.

Plan Membership – Current membership in the Plan as of June 30, 2017 was as follows:

Inactive employees or beneficiaries receiving benefits	324
Active employees	<u>574</u>
	<u>898</u>

Contributions – The contribution requirements of OPEB 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 costs of administering the OPEB 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:

	<u>Town</u>	<u>Water Enterprise</u>	<u>Total</u>
Annual required contributions ("ARC")	\$ 4,063,294	\$ 57,269	\$ 4,120,563
Interest on net OPEB obligation	486,513	9,277	495,790
Amortization of actuarial gains	(1,479,911)	(18,308)	(1,498,219)
Adjustment to ARC	<u>(555,735)</u>	<u>(10,596)</u>	<u>(566,331)</u>
Annual OPEB cost	2,514,161	37,642	2,551,803
Contributions made	<u>(2,819,165)</u>	<u>(32,155)</u>	<u>(2,851,320)</u>
Increase in net OPEB obligation	(305,004)	5,487	(299,517)
Net OPEB obligation - beginning of year	<u>8,097,649</u>	<u>165,516</u>	<u>8,263,165</u>
Net OPEB obligation - end of year	<u>\$ 7,792,645</u>	<u>\$ 171,003</u>	<u>\$ 7,963,648</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 2,551,803	112%	\$ 7,963,648
June 30, 2016	2,416,735	114%	8,263,165
June 30, 2015	2,584,897	235%	8,599,930

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: general government \$89,505; public safety \$279,784; education \$1,997,673; public works \$64,098; health and human services \$37,537; culture and recreation \$45,564; and water enterprise \$37,642.

Funding Status and Funding Progress – The funded status of the OPEB Plan at June 30, 2017 for the most recent actuarial valuation performed as of June 30, 2016, was as follows:

Actuarial value of plan assets	\$ 6,426,846
Actuarial accrued liability (“AAL”)	33,668,166
Unfunded actuarial accrued liability (“UAAL”)	27,241,320
Funded ratio (actuarial value of plan assets/AAL)	19.1%
Covered payroll (annually payroll of active employees covered by the plan)	n/a
UAAL as a percentage of covered payroll	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.

Investment Policy – The Plan does not have a formal investment policy at this time. The Plan invests its funds in permissible investments as specified by the Commonwealth.

Investment Rate of Return – For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was approximately 14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability – The components of the net OPEB Liability of the Town at June 30, 2017 were as follows:

Total OPEB liability	\$ 31,173
Plan fiduciary net position	<u>(9,002)</u>
Net OPEB liability	<u>\$ 22,171</u>
Plan fiduciary net position as a percentage of the total OPEB liability	28.88%

The net OPEB liability is not reported in the accompanying financial statements. It is presented herein as prescribed under GASB Statement No. 74. The Town will report its net OPEB liability beginning in fiscal year 2018 upon adoption of GASB Statement No. 75. The Town presently reports its OPEB obligation in its government-wide and proprietary funds financial statements in accordance with GASB Statement No. 45.

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

Actuarial cost method:	Individual entry age normal
Asset valuation method:	Market value of assets as of valuation date
Discount rate:	7.00%
Healthcare cost trend rate:	5.0% increase each year
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; for disabled members, the base year is 2012

Long-term Expected Rate of Return – The long-term expected rate of return on OPEB Plan investments was determined using a blend of the Municipal Bond Index Rate for unfunded periods and the investment rate of return (7.0%) for funded periods.

Sensitivity Analysis – The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage-point higher (8.0%) than the current discount rate (dollar amounts are in thousands):

	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
Net OPEB liability	\$ 26,355	\$ 21,171	\$ 17,986

The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage-point higher than the current healthcare cost trend rates (dollar amounts are in thousands):

	1% Decrease (4.0%)	Healthcare Cost Trend Rates (5.0%)	1% Increase (6.0%)
Net OPEB liability	\$ 15,737	\$ 22,171	\$ 30,225

E. 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, 2017, 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, 2017.

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 \$22.6 million at June 30, 2017.

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

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

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

IV. Implementation of New GASB Pronouncements

A. Current Year Implementations

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74’s objective was 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 became effective for the Town in fiscal year 2017. The adoption of this Statement increased disclosures surrounding the Town’s OPEB plan and the means by which it reports its OPEB activities in its fiduciary funds.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 required the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not 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 were 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 of local governmental employer. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 applied to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not 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. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

B. Future Year Implementations

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

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

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement

are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Economic Dependence and Concentrations

During the year ended June 30, 2017, approximately 28% 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 \$1,272,196 at June 30, 2017. A single tax payer represented \$287,346, or nearly 23%, 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, 2017

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	1.707162%	1.814194%	1.766853%
Town's proportionate share of the net pension liability (asset)	\$ 24,188	\$ 23,403	\$ 21,225
Town's covered-employee payroll	\$ 10,294	\$ 10,191	\$ 9,799
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	235.0%	229.6%	216.6%
Plan fiduciary net position as a percentage of the total pension liability	45.49%	46.13%	47.65%

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

	Year Ended ,June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,979	\$ 1,862	\$ 1,910
Contributions in relation to the actuarially determined contribution	<u>2,064</u>	<u>1,947</u>	<u>1,947</u>
Contribution deficiency (excess)	<u>\$ (85)</u>	<u>\$ (85)</u>	<u>\$ (37)</u>
Town's covered-employee payroll	\$ 10,294	\$ 10,191	\$ 9,799
Contributions as a percentage of covered-employee payroll	20.1%	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, 2017**

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

	Year Ended June 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,124,583	\$ 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, 2017**

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
2017	\$ 2,551,803	\$ 2,851,320	111.7%
2016	2,416,735	2,753,500	113.9%
2015	2,584,897	6,086,916	235.5%

See accompanying independent auditors' report.

TOWN OF HOLLISTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 965,170
Interest	2,087,749
Benefit payments	<u>(1,455,576)</u>
Net change in total OPEB liability	1,597,343
Total OPEB liability - beginning of year	<u>29,575,296</u>
Total OPEB liability - end of year (a)	<u><u>\$ 31,172,639</u></u>
Plan fiduciary net position:	
Contributions	\$ 1,500,000
Net investment income	<u>1,013,590</u>
Net change in Plan fiduciary net position	2,513,590
Plan fiduciary net position - beginning of year	<u>6,488,457</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 9,002,047</u></u>
Net OPEB liability - end of year (a) - (b)	<u><u>\$ 22,170,592</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	28.88%
Covered-employee payroll	\$ 35,188,394
Net OPEB liability as a percentage of covered- employee payroll	63.01%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB Statement No. 74.

See accompanying independent auditor's report.

TOWN OF HOLLISTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF CONTRIBUTIONS

	<u>2017</u>
Actuarially-determined contribution	\$ 2,708,582
Contributions in relation to the actuarially-determined contribution	<u>(2,955,576)</u>
Contribution deficiency (excess)	<u>\$ (246,994)</u>
Covered-employee payroll	\$ 35,188,394
Contribution as a percentage of covered-employee payroll	8.4%

Notes to Schedule

Valuation Date	June 30, 2017
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Market value of assets as of reporting date
Inflation	2.75% per annum
Salary Increases	3.00% per annum
Investment Rate of Return	7.04%, net of investment expenses, including inflation
Single Equivalent Discount Rate	7.00%, net of investment expenses, including inflation. Using a blend of municipal bond index rate for unfunded periods (3.13% as of June 30, 2017) and the Investment Rate of Return for funded periods
Mortality	For pre-retirement, RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009. For post-retirement, RP-2000 Healthy Annuitant Mortality Table based generationally with scale BB and a base year 2009. For disabled, RP-2000 Healthy Annuitant Table projected generationally for scale BB and a base year 2012.

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	13.80%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 44,015,403	\$ 44,015,403	\$ 44,166,523		\$ 44,166,523	\$ 151,120
Intergovernmental	11,141,819	11,141,819	11,227,516		11,227,516	85,697
Motor vehicle and other excises	1,900,000	1,900,000	2,404,538		2,404,538	504,538
License and permits	300,000	300,000	547,698		547,698	247,698
Departmental and other revenue	674,000	674,000	835,561		835,561	161,561
Penalties and interest on taxes	140,000	140,000	261,283		261,283	121,283
Fines and forfeitures	60,000	60,000	67,200		67,200	7,200
Investment income	25,000	25,000	53,247		53,247	28,247
Total Revenues	58,256,222	58,256,222	59,563,566		59,563,566	1,307,344
EXPENDITURES						
General government	2,361,206	3,477,482	2,436,363	\$ 635,061	3,071,424	406,058
Public safety	4,098,121	4,763,202	4,354,396	257,243	4,611,639	151,563
Education	32,772,320	33,252,500	32,460,893	779,927	33,240,820	11,680
Public works	3,337,026	3,667,122	3,331,360	267,650	3,599,010	68,112
Health and human services	685,006	685,006	576,705	30,589	607,294	77,712
Culture and recreation	598,564	679,564	608,202	16,829	625,031	54,533
Pension and fringe benefits	8,566,795	8,553,542	8,457,299	-	8,457,299	96,243
Debt service	5,533,450	5,533,450	5,528,454	-	5,528,454	4,996
State and county tax assessments	370,936	370,936	369,758	-	369,758	1,178
Total Expenditures	58,323,424	60,982,804	58,123,430	1,987,299	60,110,729	872,075
OTHER FINANCING SOURCES (USES)						
Transfers in	-	2,069,793	2,483,675	-	2,483,675	413,882
Transfers out	(1,145,937)	(2,785,958)	(2,785,958)	-	(2,785,958)	-
Total Other Financing Sources (Uses)	(1,145,937)	(716,165)	(302,283)	-	(302,283)	413,882
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(1,213,139)	(3,442,747)	\$ 1,137,853	\$ (1,987,299)	\$ (849,446)	\$ 2,593,301
Other budget items:						
Prior year encumbrances	1,213,139	1,213,139				
From available surplus (free cash)	-	2,230,149				
Other	-	(541)				
Total other budget items	1,213,139	3,442,747				
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, 2017**

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:

	<u>Basis of Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenues on a budgetary basis			\$ 59,563,566
On behalf payments	\$ 7,309,706	\$ -	7,309,706
Revenue recognition - effect of 60-day receivables	143,848	-	143,848
Stabilization interest - GASB 54 impact	-	(2,882)	(2,882)
Revenues on a GAAP basis	<u>\$ 7,453,554</u>	<u>\$ (2,882)</u>	<u>\$ 67,014,237</u>
 Expenditures on a budgetary basis			 \$ 58,123,430
Debt service treated as transfers out	\$ (98,279)	\$ -	(98,279)
Expense recognition - effect of prepayments	(295,360)	-	(295,360)
On behalf payments	7,309,706	-	7,309,706
Expenditures on a GAAP basis	<u>\$ 6,916,067</u>	<u>\$ -</u>	<u>\$ 65,039,497</u>
 Net transfers on a budgetary basis			 \$ (302,283)
Stabilization transfers - GASB 54 impact	\$ -	\$ (50,000)	(50,000)
Debt service treated as transfers out	(98,279)	-	(98,279)
Net transfers on a GAAP basis	<u>\$ (98,279)</u>	<u>\$ (50,000)</u>	<u>\$ (450,562)</u>