

**TOWN OF MEDWAY, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2016**

**Town of Medway, Massachusetts**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Medway, Massachusetts

**Additional Offices:**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Medway, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Medway, Massachusetts, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient 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 January 11, 2017 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial report-

ing 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.

*Melanson Heath*

January 11, 2017

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

As management of the Town of Medway, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

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

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 that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water, ambulance service, sewer, and solid waste collection activities.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, ambulance, sewer, and solid waste collection operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, ambulance, sewer and solid waste funds, which are considered to be major funds.

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

**Notes to 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.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information

which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$99,403,143 (i.e., net position), a change of \$1,397,393 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$20,547,128, a change of \$1,041,972 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,898,188, a change of \$291,025 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$38,498,858, a change of \$(2,348,165) in comparison to the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 29,703	\$ 27,018	\$ 5,664	\$ 7,765	\$ 35,367	\$ 34,783
Capital assets	115,794	115,150	36,582	35,690	152,376	150,840
Deferred outflows	3,937	689	119	21	4,056	710
Total assets	149,434	142,857	42,365	43,476	191,799	186,333
Long-term liabilities outstanding	67,565	65,489	11,163	10,423	78,728	75,912
Other liabilities	9,576	8,845	2,457	3,571	12,033	12,416
Deferred inflows	1,587	-	48	-	1,635	-
Total liabilities	78,728	74,334	13,668	13,994	92,396	88,328
Net position:						
Net investment in capital assets	86,828	84,625	23,517	25,435	110,345	110,060
Restricted	9,012	8,602	-	-	9,012	8,602
Unrestricted	(25,134)	(24,704)	5,180	4,047	(19,954)	(20,657)
Total net position	\$ 70,706	\$ 68,523	\$ 28,697	\$ 29,482	\$ 99,403	\$ 98,005



CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,268	\$ 2,869	\$ 5,271	\$ 5,130	\$ 8,539	\$ 7,999
Operating grants and contributions	18,739	16,266	-	-	18,739	16,266
Capital grants and contributions	1,346	262	-	-	1,346	262
General revenues:						
Property taxes	33,449	31,524	-	-	33,449	31,524
Excises	1,883	1,915	-	-	1,883	1,915
Penalties and interest on taxes	213	267	-	-	213	267
Grants and contributions not restricted to specific programs	1,257	1,183	-	-	1,257	1,183
Investment income	112	90	1	10	113	100
Other	306	401	205	41	511	442
Total revenues	<u>60,573</u>	<u>54,777</u>	<u>5,477</u>	<u>5,181</u>	<u>66,050</u>	<u>59,958</u>
Expenses:						
General government	2,974	2,925	-	-	2,974	2,925
Public safety	3,718	3,506	-	-	3,718	3,506
Education	38,512	32,682	-	-	38,512	32,682
Public works	2,966	2,992	-	-	2,966	2,992
Human services	560	519	-	-	560	519
Culture and recreation	1,026	5,055	-	-	1,026	5,055
Employee benefits	7,375	6,840	-	-	7,375	6,840
Interest on long-term debt	869	877	-	-	869	877
Intergovernmental	750	705	-	-	750	705
Water	-	-	2,241	2,153	2,241	2,153
Ambulance	-	-	647	591	647	591
Sewer operations	-	-	1,625	1,386	1,625	1,386
Solid waste	-	-	1,375	1,258	1,375	1,258
Total expenses	<u>58,750</u>	<u>56,101</u>	<u>5,888</u>	<u>5,388</u>	<u>64,638</u>	<u>61,489</u>
Change in net position before transfers	1,823	(1,324)	(411)	(207)	1,412	(1,531)
Transfers in (out)	<u>360</u>	<u>71</u>	<u>(374)</u>	<u>(246)</u>	<u>(14)</u>	<u>(175)</u>
Change in net position	2,183	(1,253)	(785)	(453)	1,398	(1,706)
Net position - beginning of year	<u>68,523</u>	<u>69,776</u>	<u>29,482</u>	<u>29,935</u>	<u>98,005</u>	<u>99,711</u>
Net position - end of year	<u>\$ 70,706</u>	<u>\$ 68,523</u>	<u>\$ 28,697</u>	<u>\$ 29,482</u>	<u>\$ 99,403</u>	<u>\$ 98,005</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$99,403,143, a change of \$1,397,393 from the prior year.

The largest portion of net position \$110,344,802 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$9,011,898 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit balance of \$(19,953,557) caused primarily by unfunded post-employment benefits and pension liability (see Notes 19 and 20).

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$2,182,981. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,529,383
Community preservation surplus - operating results	250,946
Nonmajor funds - accrual basis	2,094,521
Depreciation expense in excess of principal debt service	(668,569)
Change in other post employment benefits liability	(2,261,793)
Change in net pension liability	(487,089)
Other GAAP accruals	<u>1,725,582</u>
Total	<u>\$ 2,182,981</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(785,588). Key elements of this change are as follows:

Water operations	\$ (292,570)
Ambulance operations	(52,046)
Sewer operations	(316,711)
Solid waste operations	<u>(124,261)</u>
Total	<u>\$ (785,588)</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$20,547,128, a change of \$1,041,972 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 1,529,383
Community preservation	250,946
Nonmajor funds	<u>(738,357)</u>
Total	<u>\$ 1,041,972</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,898,188 while total fund balance was \$12,257,442. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 6,898,188	\$ 6,607,163	\$ 291,025	15.0%
Total fund balance	\$ 12,257,442	\$ 10,728,059	\$ 1,529,383	26.6%

The total fund balance of the general fund changed by \$1,529,393 during the current fiscal year. Key factors in this change are as follows:

Excess revenues over budget	\$ 1,503,139
Budgetary appropriation surplus	886,369
Excess of tax collections over budget	238,123
Shortfall of current year encumbered appropriations to be spent in the subsequent year over prior year encumbrances spent in the current year	(110,116)
Change in stabilization/fiscal stability	(23,132)
Use of free cash	(975,000)
Other timing issue	<u>10,000</u>
Total	<u>\$ 1,529,383</u>

Included in the total general fund balance are the Town's stabilization and fiscal stability accounts with the following balances:

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General trust stabilization	\$ 2,041,113	\$ 1,925,866	\$ 115,247
General operating stabilization	83,700	683,407	(599,707)
Stabilization storm reserve	213,171	212,389	782
Stabilization health insurance	52,884	52,699	185
Stabilization ESCO	82,195	125,298	(43,103)
Stabilization capital improvements	342,101	340,905	1,196
Stabilization DPS facility	504,436	2,168	502,268
Fiscal stability	<u>804,159</u>	<u>804,159</u>	<u>-</u>
Total	<u>\$ 4,123,759</u>	<u>\$ 4,146,891</u>	<u>\$ (23,132)</u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$5,179,984, a change of \$1,132,270 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no material differences between the original budget and final amended budget.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$152,376,504 (net of accumulated depreciation), a change of \$1,536,085 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- \$1,863,797 – Water main replacement

Additional information on capital assets can be found in the Notes to the Financial Statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$38,498,858, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

### **REQUESTS FOR INFORMATION**

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

Office of Finance Director  
Town of Medway, Massachusetts  
155 Village Street  
Medway, Massachusetts 02053

TOWN OF MEDWAY, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 26,490,498	\$ 3,818,932	\$ 30,309,430
Receivables, net of allowance for uncollectibles:			
Property taxes	872,045	-	872,045
Excises	64,312	-	64,312
User fees	-	1,222,281	1,222,281
Departmental and other	519,733	-	519,733
Intergovernmental	551,140	623,213	1,174,353
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,206,052	-	1,206,052
Capital Assets:			
Land and construction in progress	47,296,398	4,735,079	52,031,477
Other capital assets, net of accumulated depreciation	68,497,685	31,847,342	100,345,027
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,936,569</u>	<u>118,823</u>	<u>4,055,392</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	149,434,432	42,365,670	191,800,102
<b>LIABILITIES</b>			
Current:			
Warrants payable	957,408	99,928	1,057,336
Accrued liabilities	2,298,847	102,617	2,401,464
Notes payable	3,129,450	1,379,498	4,508,948
Tax refunds payable	508,444	-	508,444
Other current liabilities	267,762	12,957	280,719
Current portion of long-term liabilities:			
Bonds payable	2,335,494	858,985	3,194,479
Capital lease	26,562	-	26,562
Compensated absence	50,960	3,812	54,772
Noncurrent:			
Bonds payable, net of current portion	25,513,983	9,790,396	35,304,379
Capital lease, net of current portion	27,426	-	27,426
Compensated absence, net of current portion	458,638	34,320	492,958
Accrued other post-employment benefits	22,729,457	769,671	23,499,128
Net pension liability	18,836,389	568,565	19,404,954
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,587,473</u>	<u>47,917</u>	<u>1,635,390</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	78,728,293	13,668,666	92,396,959
<b>NET POSITION</b>			
Net investment in capital assets	86,827,782	23,517,020	110,344,802
Restricted for:			
Grants and other statutory restrictions	8,292,961	-	8,292,961
Permanent funds:			
Nonexpendable	110,869	-	110,869
Expendable	608,068	-	608,068
Unrestricted	<u>(25,133,541)</u>	<u>5,179,984</u>	<u>(19,953,557)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 70,706,139</u>	<u>\$ 28,697,004</u>	<u>\$ 99,403,143</u>

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

TOWN OF MEDWAY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	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
<b>Governmental Activities:</b>							
General government	\$ 2,973,899	\$ 468,564	\$ 530,361	\$ -	\$ (1,974,974)	\$ -	\$ (1,974,974)
Public safety	3,717,934	489,024	30,416	-	(3,198,494)	-	(3,198,494)
Education	38,511,693	2,156,740	17,066,957	371,094	(18,916,902)	-	(18,916,902)
Public works	2,966,223	7,505	502,010	975,173	(1,481,535)	-	(1,481,535)
Health and human services	560,455	78,285	99,136	-	(383,034)	-	(383,034)
Culture and recreation	1,026,395	67,811	509,771	-	(448,813)	-	(448,813)
Employee benefits	7,375,238	-	-	-	(7,375,238)	-	(7,375,238)
Interest	868,923	-	-	-	(868,923)	-	(868,923)
Intergovernmental	749,461	-	-	-	(749,461)	-	(749,461)
Total Governmental Activities	58,750,221	3,267,929	18,738,651	1,346,267	(35,397,374)	-	(35,397,374)
<b>Business-Type Activities:</b>							
Water services	2,241,174	2,013,199	-	-	-	(227,975)	(227,975)
Ambulance	646,957	549,768	-	-	-	(97,189)	(97,189)
Sewer	1,624,489	1,353,260	-	-	-	(271,229)	(271,229)
Solid waste	1,375,140	1,354,823	-	-	-	(20,317)	(20,317)
Total Business-Type Activities	5,887,760	5,271,050	-	-	-	(616,710)	(616,710)
Total	\$ 64,637,981	\$ 8,538,979	\$ 18,738,651	\$ 1,346,267	(35,397,374)	(616,710)	(36,014,084)
<b>General Revenues and Transfers:</b>							
Property taxes					33,449,333	-	33,449,333
Excises					1,882,519	-	1,882,519
Penalties, interest and other taxes					212,804	-	212,804
Grants and contributions not restricted to specific programs					1,257,202	-	1,257,202
Investment income					112,014	1,133	113,147
Miscellaneous					306,127	204,476	510,603
Transfers, net					360,356	(374,487)	(14,131)
Total general revenues					37,580,355	(168,878)	37,411,477
Change in Net Position					2,182,981	(785,588)	1,397,393
<b>Net Position:</b>							
Beginning of year					68,523,158	29,482,592	98,005,750
End of year					\$ 70,706,139	\$ 28,697,004	\$ 99,403,143

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

TOWN OF MEDWAY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 15,567,974	\$ 5,851,211	\$ 5,071,313	\$ 26,490,498
Receivables:				
Property taxes	2,597,627	-	-	2,597,627
Excises	157,540	-	-	157,540
Departmental and other	6,453	9,670	503,878	520,001
Intergovernmental	24,000	-	527,140	551,140
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
TOTAL ASSETS	<u>\$ 18,353,594</u>	<u>\$ 5,860,881</u>	<u>\$ 6,102,331</u>	<u>\$ 30,316,806</u>
<b>LIABILITIES</b>				
Warrants payable	\$ 687,159	\$ -	\$ 270,249	\$ 957,408
Accrued liabilities	2,011,984	-	96,333	2,108,317
Notes payable	-	-	3,129,450	3,129,450
Tax refunds payable	508,444	-	-	508,444
Other liabilities	246,181	-	21,581	267,762
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES	3,453,768	-	3,517,613	6,971,381
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,642,384	9,669	146,244	2,798,297
<b>FUND BALANCES</b>				
Nonspendable	-	-	110,869	110,869
Restricted	-	-	4,854,074	4,854,074
Committed	2,472,090	5,851,212	-	8,323,302
Assigned	2,887,164	-	-	2,887,164
Unassigned	6,898,188	-	(2,526,469)	4,371,719
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
TOTAL FUND BALANCES	<u>12,257,442</u>	<u>5,851,212</u>	<u>2,438,474</u>	<u>20,547,128</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 18,353,594</u>	<u>\$ 5,860,881</u>	<u>\$ 6,102,331</u>	<u>\$ 30,316,806</u>

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



TOWN OF MEDWAY, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ 20,547,128
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	115,794,083
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,185,271
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(190,530)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(51,142,520)
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>(16,487,293)</u>
<b>Net position of governmental activities</b>	<u>\$ 70,706,139</u>

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

TOWN OF MEDWAY, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 32,375,196	\$ 663,831	\$ -	\$ 33,039,027
Excises	1,941,671	-	-	1,941,671
Penalties, interest and other taxes	212,804	-	-	212,804
Charges for services	-	-	2,616,163	2,616,163
Intergovernmental	11,525,611	259,507	4,532,508	16,317,626
Licenses and permits	782,315	-	-	782,315
Fines and forfeitures	19,013	-	-	19,013
Investment income	85,046	24,014	2,958	112,018
Miscellaneous	<u>217,827</u>	<u>-</u>	<u>587,191</u>	<u>805,018</u>
Total Revenues	47,159,483	947,352	7,738,820	55,845,655
<b>Expenditures:</b>				
Current:				
General government	2,858,773	-	560,592	3,419,365
Public safety	3,476,352	-	141,710	3,618,062
Education	25,600,284	-	5,332,552	30,932,836
Public works	2,529,258	-	1,736,609	4,265,867
Health and human services	383,153	-	184,223	567,376
Culture and recreation	522,073	138,635	435,367	1,096,075
Employee benefits	6,769,145	-	-	6,769,145
Debt service	3,251,305	484,053	10,494	3,745,852
Intergovernmental	<u>749,461</u>	<u>-</u>	<u>-</u>	<u>749,461</u>
Total Expenditures	<u>46,139,804</u>	<u>622,688</u>	<u>8,401,547</u>	<u>55,164,039</u>
Excess (deficiency) of revenues over expenditures	1,019,679	324,664	(662,727)	681,616
<b>Other Financing Sources (Uses):</b>				
Transfers in	732,486	-	88,987	821,473
Transfers out	<u>(222,782)</u>	<u>(73,718)</u>	<u>(164,617)</u>	<u>(461,117)</u>
Total Other Financing Sources (Uses)	<u>509,704</u>	<u>(73,718)</u>	<u>(75,630)</u>	<u>360,356</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,529,383	250,946	(738,357)	1,041,972
Fund Equity, at Beginning of Year	<u>10,728,059</u>	<u>5,600,266</u>	<u>3,176,831</u>	<u>19,505,156</u>
Fund Equity, at End of Year	<u>\$ 12,257,442</u>	<u>\$ 5,851,212</u>	<u>\$ 2,438,474</u>	<u>\$ 20,547,128</u>

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

TOWN OF MEDWAY, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 1,041,972</b>																
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">4,165,216</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,521,613)</td> </tr> </table> </li> <li>• 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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">376,027</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,853,044</td> </tr> <tr> <td>Repayment of capital lease</td> <td style="text-align: right;">25,726</td> </tr> </table> </li> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">23,885</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(2,294,187)</td> </tr> </table> </li> <li>• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(487,089)</td> </tr> </table> </li> </ul>		Capital outlay purchases	4,165,216	Depreciation	(3,521,613)		376,027	Repayments of debt	2,853,044	Repayment of capital lease	25,726		23,885		(2,294,187)		(487,089)
Capital outlay purchases	4,165,216																
Depreciation	(3,521,613)																
	376,027																
Repayments of debt	2,853,044																
Repayment of capital lease	25,726																
	23,885																
	(2,294,187)																
	(487,089)																
<b>Change in net position of governmental activities</b>	<b>\$ <u>2,182,981</u></b>																

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

TOWN OF MEDWAY, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES  
- BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 32,137,073	\$ 32,137,073	\$ 32,137,073	\$ -
Excises	1,500,000	1,500,000	1,941,671	441,671
Penalties, interest and other taxes	109,000	109,000	212,804	103,804
Intergovernmental	11,426,813	11,426,813	11,525,611	98,798
Licenses and permits	306,000	306,000	782,315	476,315
Fines and forfeits	15,000	15,000	19,013	4,013
Investment income	46,000	46,000	64,494	18,494
Miscellaneous	16,000	16,000	217,827	201,827
Transfer in	617,953	617,953	776,170	158,217
Use of free cash	975,000	975,000	975,000	-
Total Revenues and Other Sources	47,148,839	47,148,839	48,651,978	1,503,139
<b>Expenditures and Other Uses:</b>				
General government	2,992,449	2,992,449	2,753,288	239,161
Public safety	3,524,644	3,524,644	3,494,013	30,631
Education	25,587,961	25,587,961	25,555,528	32,433
Public works	2,653,476	2,653,476	2,628,729	24,747
Health and human services	410,004	410,004	383,153	26,851
Culture and recreation	445,525	445,525	443,174	2,351
Debt service	3,509,060	3,509,060	3,294,587	214,473
Intergovernmental	714,743	714,743	749,461	(34,718)
Employee benefits	7,121,477	7,121,477	6,771,037	350,440
Transfers out	179,500	179,500	179,500	-
Tax title	10,000	10,000	10,000	-
Total Expenditures and Other Uses	47,148,839	47,148,839	46,262,470	886,369
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,389,508	\$ 2,389,508

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

TOWN OF MEDWAY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Fund				Total
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	
<b>ASSETS</b>					
Current:					
Cash and short-term investments	\$ 1,247,528	\$ 333,919	\$ 1,089,547	\$ 1,147,938	\$ 3,818,932
User fees, net of allowance for uncollectibles	263,224	81,524	721,824	155,709	1,222,281
Intergovernmental	623,213	-	-	-	623,213
Total current assets	2,133,965	415,443	1,811,371	1,303,647	5,664,426
Noncurrent:					
Capital assets					
Land and construction in progress	4,376,780	-	358,299	-	4,735,079
Other capital assets, net of accumulated depreciation	19,747,204	168,040	11,932,098	-	31,847,342
Total noncurrent assets	24,123,984	168,040	12,290,397	-	36,582,421
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	42,176	24,332	20,277	32,038	118,823
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	26,300,125	607,815	14,122,045	1,335,685	42,365,670
<b>LIABILITIES</b>					
Current:					
Warrants payable	43,524	19,373	34,651	2,380	99,928
Accrued liabilities	72,116	2,420	23,621	4,460	102,617
Notes payable	1,304,498	-	75,000	-	1,379,498
Other liabilities	12,957	-	-	-	12,957
Current portion of long-term liabilities:					
Bonds payable	632,985	30,000	196,000	-	858,985
Compensated absences	2,720	544	-	548	3,812
Total current liabilities	2,068,800	52,337	329,272	7,388	2,457,797
Noncurrent:					
Bonds payable, net of current portion	7,645,396	60,000	2,085,000	-	9,790,396
Compensated absences, net of current portion	24,484	4,901	-	4,935	34,320
Accrued other post-employment benefits	273,480	176,474	132,725	186,992	769,671
Net pension liability	201,812	116,430	97,025	153,298	568,565
Total noncurrent liabilities	8,145,172	357,805	2,314,750	345,225	11,162,952
<b>DEFERRED INFLOWS OF RESOURCES</b>	17,008	9,812	8,177	12,920	47,917
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	10,230,980	419,954	2,652,199	365,533	13,668,666
<b>NET POSITION</b>					
Net investment in capital assets	13,161,361	78,040	10,277,619	-	23,517,020
Unrestricted	2,907,784	109,821	1,192,227	970,152	5,179,984
<b>TOTAL NET POSITION</b>	<u>\$ 16,069,145</u>	<u>\$ 187,861</u>	<u>\$ 11,469,846</u>	<u>\$ 970,152</u>	<u>\$ 28,697,004</u>

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

TOWN OF MEDWAY, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Fund				Total
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	
<b>Operating Revenues:</b>					
Charges for services	\$ 2,013,199	\$ 549,768	\$ 1,353,260	\$ 1,354,823	\$ 5,271,050
Other	204,476	-	-	-	204,476
Total Operating Revenues	<u>2,217,675</u>	<u>549,768</u>	<u>1,353,260</u>	<u>1,354,823</u>	<u>5,475,526</u>
<b>Operating Expenses:</b>					
Operating expenses	1,290,137	610,685	1,193,831	1,375,140	4,469,793
Depreciation	731,850	32,072	354,115	-	1,118,037
Total Operating Expenses	<u>2,021,987</u>	<u>642,757</u>	<u>1,547,946</u>	<u>1,375,140</u>	<u>5,587,830</u>
Operating Income (Loss)	195,688	(92,989)	(194,686)	(20,317)	(112,304)
<b>Nonoperating Revenues (Expenses):</b>					
Investment income	-	-	1,133	-	1,133
Interest expense	(219,187)	(4,200)	(76,543)	-	(299,930)
Total Nonoperating Revenues (Expenses), Net	<u>(219,187)</u>	<u>(4,200)</u>	<u>(75,410)</u>	<u>-</u>	<u>(298,797)</u>
Income (Loss) Before Transfers	(23,499)	(97,189)	(270,096)	(20,317)	(411,101)
<b>Transfers:</b>					
Transfers in	-	150,000	43,282	-	193,282
Transfers out	(269,071)	(104,857)	(89,897)	(103,944)	(567,769)
Change in Net Position	(292,570)	(52,046)	(316,711)	(124,261)	(785,588)
Net Position at Beginning of Year	<u>16,361,715</u>	<u>239,907</u>	<u>11,786,557</u>	<u>1,094,413</u>	<u>29,482,592</u>
Net Position at End of Year	<u>\$ 16,069,145</u>	<u>\$ 187,861</u>	<u>\$ 11,469,846</u>	<u>\$ 970,152</u>	<u>\$ 28,697,004</u>

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

TOWN OF MEDWAY, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds				
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>					
Receipts from customers and users	\$ 4,072,250	\$ 534,565	\$ 1,402,206	\$ 1,418,183	\$ 7,427,204
Payments to vendors and employees	<u>(1,427,048)</u>	<u>(566,088)</u>	<u>(1,196,220)</u>	<u>(1,365,696)</u>	<u>(4,555,052)</u>
Net Cash Provided By (Used For) Operating Activities	2,645,202	(31,523)	205,986	52,487	2,872,152
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>					
Transfers in	-	150,000	43,282	-	193,282
Transfers out	<u>(269,071)</u>	<u>(104,857)</u>	<u>(89,897)</u>	<u>(103,944)</u>	<u>(567,769)</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	(269,071)	45,143	(46,615)	(103,944)	(374,487)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>					
Acquisition and construction of capital assets	(1,907,187)	-	(103,332)	-	(2,010,519)
Principal payments on bonds and notes	(918,102)	(30,000)	(196,000)	-	(1,144,102)
Proceeds of notes payable	730,879	-	75,000	-	805,879
Interest expense	<u>(219,187)</u>	<u>(4,200)</u>	<u>(76,543)</u>	<u>-</u>	<u>(299,930)</u>
Net Cash (Used For) Capital and Related Financing Activities	(2,313,597)	(34,200)	(300,875)	-	(2,648,672)
<b><u>Cash Flows From Investing Activities:</u></b>					
Investment income	<u>-</u>	<u>-</u>	<u>1,134</u>	<u>-</u>	<u>1,134</u>
Net Cash Provided By Investing Activities	<u>-</u>	<u>-</u>	<u>1,134</u>	<u>-</u>	<u>1,134</u>
Net Change in Cash and Short-Term Investments	62,534	(20,580)	(140,370)	(51,457)	(149,873)
Cash and Short-Term Investments, Beginning of Year	<u>1,184,994</u>	<u>354,499</u>	<u>1,229,917</u>	<u>1,199,395</u>	<u>3,968,805</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,247,528</u>	<u>\$ 333,919</u>	<u>\$ 1,089,547</u>	<u>\$ 1,147,938</u>	<u>\$ 3,818,932</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</u></b>					
Operating income (loss)	\$ 195,688	\$ (92,989)	\$ (194,686)	\$ (20,317)	\$ (112,304)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	731,850	32,072	354,115	-	1,118,037
Changes in assets and liabilities:					
Receivables	(30,166)	(15,203)	48,947	63,360	66,938
Due from other governments	1,884,741	-	-	-	1,884,741
Other assets	(34,792)	(20,072)	(16,727)	(26,429)	(98,020)
Warrants and accounts payable	(168,638)	11,145	(21,831)	(6,200)	(185,524)
Other liabilities	64,698	61,703	30,980	33,114	190,495
Accrued liabilities	(21,182)	(21,450)	(5,871)	(8,514)	(57,017)
Net pension liability	<u>23,003</u>	<u>13,271</u>	<u>11,059</u>	<u>17,473</u>	<u>64,806</u>
Net Cash Provided By Operating Activities	<u>\$ 2,645,202</u>	<u>\$ (31,523)</u>	<u>\$ 205,986</u>	<u>\$ 52,487</u>	<u>\$ 2,872,152</u>

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

TOWN OF MEDWAY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Private Purpose Trust <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>			
Cash and short-term investments	\$ 974,827	\$ 351,264	\$ 440,272
Receivable	-	-	71,419
Other assets	-	-	20,000
Total Assets	<u>974,827</u>	<u>351,264</u>	<u>531,691</u>
<b><u>LIABILITIES AND NET POSITION</u></b>			
Accounts payable	300	-	49,866
Escrow deposits	-	-	472,935
Other liabilities	-	-	8,890
Total Liabilities	<u>300</u>	<u>-</u>	<u>531,691</u>
<b><u>NET POSITION</u></b>			
Total net position held in trust	<u>\$ 974,527</u>	<u>\$ 351,264</u>	<u>\$ -</u>

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



TOWN OF MEDWAY, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Other Post-Employment Benefits Trust Fund</u>
<b>Additions:</b>		
Investment income	\$ 5,189	\$ 377
Miscellaneous	<u>100,113</u>	<u>100,000</u>
Total additions	105,302	100,377
<b>Deductions:</b>		
Education	<u>47,086</u>	<u>-</u>
Total deductions	<u>47,086</u>	<u>-</u>
Net increase	58,216	100,377
<b>Net position:</b>		
Beginning of year	<u>916,311</u>	<u>250,887</u>
End of year	<u>\$ 974,527</u>	<u>\$ 351,264</u>

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

# TOWN OF MEDWAY, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Medway, MA (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

#### A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

#### B. Government-wide and Fund Financial Statements

##### Government-wide 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 nonfiduciary activities of the primary government. 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

##### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements

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

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community preservation fund* accounts for funds used for the acquisition, creation, and preservation of open space, historic resources, and community housing.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from

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

The government reports the following major proprietary funds:

- Water operations
- Ambulance services
- Sewer operations
- Solid waste collection fund

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

The *other post-employment benefits trust fund* is used to account for assets that are dedicated to providing benefits to retirees. These funds reduce the unfunded actuarial liability of healthcare and other post-employment benefits. Contributions to this fund are irrevocable.

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$751,728.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Roads and improvements	20
Infrastructure	30-75
Vehicles	5
Office equipment	5
Computer equipment	5

G. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

## H. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

### I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

*Net Position* - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

*J. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

**2. Stewardship, Compliance, and Accountability**

*A. Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

**B. Budgetary Basis**

The general fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

**C. Budget/GAAP Reconciliation**

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 47,159,483	\$ 46,139,804
Other financing sources/uses (GAAP basis)	<u>732,486</u>	<u>222,782</u>
Subtotal (GAAP Basis)	47,891,969	46,362,586
Remove effect of combining stabilization and general fund	23,132	-
Adjust tax revenue to accrual basis	(238,123)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(802,187)
Add end-of-year appropriation carryforwards from expenditures	-	692,071
To record use of free cash	975,000	-
Other timing issue	<u>-</u>	<u>10,000</u>
Budgetary basis	<u>\$ 48,651,978</u>	<u>\$ 46,262,470</u>



D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

Chapter 90	\$ (361,779)
Title II Teacher Quality	(13,616)
Title I FY16	(8,317)
94-142	(153,187)
SPED program improvement	(2,208)
DHCD FY16 earmark	(158,447)
Local preparedness	(3,066)
State 911 support incentive grant	(29,922)
Route 109 earmark	(131,480)
MADEP storm water	(29,310)
Aging mastery program	(597)
Police cruiser computer	(49,381)
Upgrade radio infrastructure	(20,951)
Middle School wing renovation	(150,000)
McGovern windows	(505,638)
Sidewalk plow	(156,976)
DPS facility design	(52,504)
Route 109 construction	(4,636)
Brentwood drainage	(638,615)
Library carpeting	<u>(55,839)</u>
	<u>\$ (2,526,469)</u>

The Town's special revenue and capital project funds reflect various individual deficit fund balance accounts which will be funded by future departmental revenues, bond proceeds, and transfers from other funds.

**3. Cash and Short-Term Investments**

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or

banking company for such excess.” The Town does not have a deposit policy for custodial credit risk.

The Town did not have any bank balances that were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank’s trust department not in the Town’s name.

#### 4. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor’s for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers’ property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ 358	
2015	32	
2014	2	
2013	2	
Prior	<u>(12)</u>	
		382
Personal Property		
2016	386	
2015	387	
2014	2	
2013	1	
Prior	<u>14</u>	
		790
Tax Liens		1,340
Deferred Taxes		<u>86</u>
Total		<u>\$ 2,598</u>

**5. Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 520	\$ -
Excises	\$ 93	\$ -
Utilities	\$ -	\$ 315
Other	\$ -	\$ 14

**6. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

**7. Interfund Fund Transfers**

Transfers between Governmental and Business-Type Activities do not offset by \$14,131. This is due to transfers between the Agency and Governmental funds.

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 732,486	\$ 222,782
Community Preservation Fund	-	73,718
Nonmajor Funds:		
Special Revenue Funds	54,269	164,617
Capital Project Funds	<u>34,718</u>	<u>-</u>
Subtotal Nonmajor Funds	88,987	164,617
<u>Business-Type Funds:</u>		
Water Fund	-	269,071
Ambulance Fund	150,000	104,857
Sewer Fund	43,282	89,897
Solid Waste Fund	<u>-</u>	<u>103,944</u>
Subtotal Business-Type Funds:	<u>193,282</u>	<u>567,769</u>
Grand Total	<u>\$ 1,014,755</u>	<u>\$ 1,028,886</u>

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 89,168	\$ 354	\$ -	\$ 89,522
Machinery, equipment, and furnishings	11,122	798	(162)	11,758
Infrastructure	<u>30,479</u>	<u>1,649</u>	<u>-</u>	<u>32,128</u>
Total capital assets, being depreciated	130,769	2,801	(162)	133,408
Less accumulated depreciation for:				
Buildings and improvements	(31,045)	(2,147)	-	(33,192)
Machinery, equipment, and furnishings	(8,000)	(675)	162	(8,513)
Infrastructure	<u>(22,505)</u>	<u>(700)</u>	<u>-</u>	<u>(23,205)</u>
Total accumulated depreciation	<u>(61,550)</u>	<u>(3,522)</u>	<u>162</u>	<u>(64,910)</u>
Total capital assets, being depreciated, net	69,219	(721)	-	68,498
Capital assets, not being depreciated:				
Land	21,228	-	-	21,228
Construction in progress	<u>24,703</u>	<u>1,365</u>	<u>-</u>	<u>26,068</u>
Total capital assets, not being depreciated	<u>45,931</u>	<u>1,365</u>	<u>-</u>	<u>47,296</u>
Governmental activities capital assets, net	<u>\$ 115,150</u>	<u>\$ 644</u>	<u>\$ -</u>	<u>\$ 115,794</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 14	\$ -	\$ -	\$ 14
Machinery, equipment, and furnishings	2,384	15	-	2,399
Infrastructure	<u>54,617</u>	<u>28</u>	<u>-</u>	<u>54,645</u>
Total capital assets, being depreciated	57,015	43	-	57,058
Less accumulated depreciation for:				
Buildings and improvements	(14)	-	-	(14)
Machinery, equipment, and furnishings	(1,113)	(143)	-	(1,256)
Infrastructure	<u>(22,966)</u>	<u>(975)</u>	<u>-</u>	<u>(23,941)</u>
Total accumulated depreciation	<u>(24,093)</u>	<u>(1,118)</u>	<u>-</u>	<u>(25,211)</u>
Total capital assets, being depreciated, net	32,922	(1,075)	-	31,847
Capital assets, not being depreciated:				
Land	615	-	-	615
Construction in progress	<u>2,153</u>	<u>1,967</u>	<u>-</u>	<u>4,120</u>
Total capital assets, not being depreciated	<u>2,768</u>	<u>1,967</u>	<u>-</u>	<u>4,735</u>
Business-type activities capital assets, net	<u>\$ 35,690</u>	<u>\$ 892</u>	<u>\$ -</u>	<u>\$ 36,582</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 194
Public safety	321
Education	1,949
Public works	933
Culture and recreation	<u>125</u>
Total depreciation expense - governmental activities	<u>\$ 3,522</u>
Business-Type Activities:	
Water	\$ 732
Ambulance	32
Sewer	<u>354</u>
Total depreciation expense - business-type activities	<u>\$ 1,118</u>

## 9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Differences between expected and actual experience	\$ 381,665	\$ 11,520
Net difference between projected and actual pension investment earnings	2,531,316	76,406
Changes in proportion and differences between contributions and proportionate share of contributions	<u>1,023,588</u>	<u>30,897</u>
	<u>\$ 3,936,569</u>	<u>\$ 118,823</u>

## 10. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016.

## 11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2016:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/16</u>
MWPAT CW11-20	0.15%	04/15/12	04/15/17	\$ 500,000
MWPAT T5 97-1086-C	0.00%	12/12/12	12/12/15	200,000
General obligation	1.25%	09/22/15	09/15/16	2,314,450
General obligation	1.25%	09/22/15	09/15/16	615,000
General obligation	1.25%	09/22/15	09/15/16	264,898
General obligation	1.25%	09/22/15	09/15/16	75,000
General obligation	1.25%	09/22/15	09/15/16	539,600
Total				<u>\$ 4,508,948</u>

The following summarizes activity in notes payable during fiscal year 2016:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
MWPAT CW11-20	\$ 500,000	\$ -	\$ -	\$ 500,000
MWPAT T5 97-1086-C	200,000	-	-	200,000
General obligation	-	2,314,450	-	2,314,450
General obligation	-	615,000	-	615,000
General obligation	-	539,600	-	539,600
General obligation	-	264,898	-	264,898
General obligation	-	75,000	-	75,000
MWPAT DW-13-13A	<u>1,722,600</u>	<u>-</u>	<u>(1,722,600)</u>	<u>-</u>
Total	<u>\$ 2,422,600</u>	<u>\$ 3,808,948</u>	<u>\$ (1,722,600)</u>	<u>\$ 4,508,948</u>

## 12. Capital Lease Obligations

The Town is the lessee of certain equipment under a capital lease expiring in 2018. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2016:

	Fiscal <u>Year</u>	Capital <u>Leases</u>
	2017	\$ 28,317
	2018	<u>28,317</u>
Total minimum lease payments		56,634
Less amounts representing interest		<u>2,646</u>
Present Value of Minimum Lease Payments		<u>\$ 53,988</u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

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

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
<u>Governmental Activities:</u>	<u>Through</u>		as of
			<u>6/30/16</u>
MWPAT (Title V Septic Mgmt.)	08/01/18	0.00%	\$ 19,965
Multipurpose	04/15/22	3.73%	1,025,000
MWPAT (Title V Septic Mgmt.)	08/01/23	0.00%	29,512
Multipurpose	11/15/25	4.00%	5,990,000
Multipurpose	10/15/29	2.92%	405,000
Surface refunding	08/15/23	2.54%	80,000
Town hall remodeling	08/15/20	2.28%	75,000
Energy conservation	08/15/29	3.00%	2,780,000
General obligation	02/15/32	2.02%	4,000,000
General obligation	09/15/32	1.98%	4,030,000
Multipurpose	05/15/33	2.22%	5,305,000
General obligation	03/15/16	3.00%	4,110,000
Total Governmental Activities:			<u>\$ 27,849,477</u>

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
<u>Business-Type Activities:</u>	<u>Through</u>		as of
			<u>6/30/16</u>
Water well	10/15/29	3.18%	\$ 1,200,000
Water well	10/15/29	3.15%	375,000
Water equipment	10/15/17	2.18%	50,000
Meters	10/16/19	2.45%	420,000
Water storage tank	08/15/29	2.99%	550,000
Well	08/15/29	2.97%	400,000
Water	02/15/32	2.02%	2,195,000
General obligation	03/15/16	3.00%	265,000
MWPAT DW13-13	07/15/35	2.00%	1,440,381
MWPAT DW13-13A	07/15/36	2.00%	1,383,000
Sewer projects	04/21/17	5.00%	6,000
Sewer projects	10/15/29	3.17%	1,155,000
Sewer projects	08/15/29	3.01%	700,000
General obligation	09/15/32	1.98%	140,000
Sewer projects	03/15/16	3.00%	280,000
General obligation	02/15/32	2.02%	90,000
Total Business-Type Activities:			<u>\$ 10,649,381</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,335,494	\$ 803,158	\$ 3,138,652
2018	2,320,494	733,985	3,054,479
2019	2,305,494	659,047	2,964,541
2020	2,203,599	584,278	2,787,877
2021	2,178,599	514,164	2,692,763
2022 - 2026	9,755,797	1,662,929	11,418,726
2027 - 2031	5,480,000	576,047	6,056,047
2032 - 2033	1,270,000	45,650	1,315,650
Total	<u>\$ 27,849,477</u>	<u>\$ 5,579,258</u>	<u>\$ 33,428,735</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 858,985	\$ 292,321	\$ 1,151,306
2018	840,549	271,009	1,111,558
2019	813,169	246,548	1,059,717
2020	780,845	220,659	1,001,504
2021	678,581	197,592	876,173
2022 - 2026	3,166,055	718,713	3,884,768
2027 - 2031	2,623,922	281,286	2,905,208
2032 - 2033	887,275	45,946	933,221
Total	<u>\$ 10,649,381</u>	<u>\$ 2,274,074</u>	<u>\$ 12,923,455</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/15</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 30,703	\$ -	\$ (2,853)	\$ 27,850	\$ (2,336)	\$ 25,514
Other:						
Capital lease	80	-	(26)	54	(27)	27
Compensated absences	477	33	-	510	(51)	459
Accrued other post- employment benefits	20,467	2,262	-	22,729	-	22,729
Net pension liability	16,689	2,147	-	18,836	-	18,836
Totals	<u>\$ 68,416</u>	<u>\$ 4,442</u>	<u>\$ (2,879)</u>	<u>\$ 69,979</u>	<u>\$ (2,414)</u>	<u>\$ 67,565</u>



	Total Balance <u>7/1/15</u>	Additions	Reductions	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 10,145	\$ 1,383	\$ (879)	\$ 10,649	\$ (859)	\$ 9,790
Other:						
Compensated absences	39	-	(1)	38	(4)	34
Accrued other post-employment benefits	619	151	-	770	-	770
Net pension liability	<u>504</u>	<u>65</u>	<u>-</u>	<u>569</u>	<u>-</u>	<u>569</u>
Totals	<u>\$ 11,307</u>	<u>\$ 1,599</u>	<u>\$ (880)</u>	<u>\$ 12,026</u>	<u>\$ (863)</u>	<u>\$ 11,163</u>

#### 14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Governmental Funds</u>		
	<u>Activities</u>	<u>Activities</u>	<u>General Fund</u>	<u>Community Preservation</u>	<u>Nonmajor</u>
Unavailable revenues	\$ -	\$ -	\$ 2,642,384	\$ 9,669	\$ 146,244
Pension related:					
Changes in assumptions	\$ 1,587,473	\$ 47,917	\$ -	\$ -	\$ -

#### 15. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 16. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2016:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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. This fund balance classification includes special article appropriations approved at Town Meeting and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, and surplus set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods, general stabilization fund, and deficit funds.

Following is a breakdown of the Town's fund balances at June 30, 2016:

	General Fund	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Nonexpendable permanent funds	\$ -	\$ -	\$ 110,869	\$ 110,869
Total Nonspendable	-	-	110,869	110,869
<b>Restricted</b>				
Bonded capital projects	-	-	517,716	517,716
Special revenue funds	-	-	3,622,864	3,622,864
Expendable permanent funds	-	-	713,494	713,494
Total Restricted	-	-	4,854,074	4,854,074
<b>Committed</b>				
Reserve for continuing appropriations				
General government	224,286	-	-	224,286
Education	11,714	-	-	11,714
Public works	237,144	-	-	237,144
Stabilization storm reserve	213,171	-	-	213,171
Stabilization health insurance	52,884	-	-	52,884
Stabilization ESCO	82,195	-	-	82,195
Stabilization capital improvements	342,101	-	-	342,101
Stabilization DPS facility	504,436	-	-	504,436
Fiscal stability	804,159	-	-	804,159
Community preservation	-	5,851,212	-	5,851,212
Total Committed	2,472,090	5,851,212	-	8,323,302
<b>Assigned</b>				
Encumbrances				
General government	6,146	-	-	6,146
Public safety	36,315	-	-	36,315
Education	100,581	-	-	100,581
Public works	75,027	-	-	75,027
Culture and recreation	859	-	-	859
Reserve for excluded debt	403,480	-	-	403,480
Reserve for debt service	547,599	-	-	547,599
Reserved for expenditures	1,717,157	-	-	1,717,157
Total Assigned	2,887,164	-	-	2,887,164
<b>Unassigned</b>				
Special revenue	-	-	(891,929)	(891,929)
Capital projects	-	-	(1,634,540)	(1,634,540)
General trust stabilization	2,041,113	-	-	2,041,113
General operating stabilization	83,700	-	-	83,700
General fund	4,773,375	-	-	4,773,375
Total Unassigned	6,898,188	-	(2,526,469)	4,371,719
Total Fund Balance	\$ 12,257,442	\$ 5,851,212	\$ 2,438,474	\$ 20,547,128

## 17. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which

differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 6,898,188
Stabilization fund	(2,124,813)
Tax refund estimate	<u>508,444</u>
Statutory (UMAS) Balance	<u>\$ 5,281,819</u>

## **18. Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

## **19. Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

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

*A. Plan Description*

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2015, the actuarial valuation date, approximately 152 retirees and 310 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

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

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

Annual Required Contribution (ARC)	\$ 3,863,172
Interest on net OPEB obligation	738,023
Adjustment to ARC	<u>(1,124,597)</u>
Annual OPEB cost	3,476,598
Contributions made	<u>(1,063,846)</u>
Increase in net OPEB obligation	2,412,752
Net OPEB obligation - beginning of year	<u>21,086,376</u>
Net OPEB obligation - end of year	<u><u>\$ 23,499,128</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 3,476,598	31%	\$ 23,499,128
2015	\$ 4,096,263	26%	\$ 21,086,376
2014	\$ 3,940,458	25%	\$ 18,062,845

The Town's net OPEB obligation as of June 30, 2016 is recorded as a component of the "other long-term liabilities" line item.

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 36,572,225
Less actuarial value of plan assets	<u>(250,887)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 36,321,338</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.7%</u>
Covered payroll (active plan members)	<u>\$ 19,023,211</u>
UAAL as a percentage of covered payroll	<u>191%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to

that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation the entry age actuarial cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 8%, which decreases to a 5% long-term rate for all healthcare benefits after 2019. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

## **20. Retirement System**

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

### **A. Plan Description**

Substantially all employees of the Town (with the exception of school department employees who serve in a teaching capacity) are members of the Norfolk County Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 480 Neponset Street, Building 15, Canton, Massachusetts 02021 or from the System's website at [www.norfolkcountyretirement.org](http://www.norfolkcountyretirement.org).

### **Participant Retirement Benefits**

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of

regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

#### Participant Refunds

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

#### Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an



additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

#### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$1,902,885, which was equal to its annual required contribution.

#### B. Summary of Significant Accounting Policies

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

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

At June 30, 2016, the Town reported a liability of \$19,404,954 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 January 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At January 1, 2016, the Town's proportion was 3.572257 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$2,392,067. In addition, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 393,185	\$ -
Changes of assumptions	-	1,635,390
Net difference between projected and actual earnings on pension plan investments	2,607,722	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>1,054,485</u>	<u>-</u>
Total	<u>\$ 4,055,392</u>	<u>\$ 1,635,390</u>

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

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 1,001,897	\$ 419,331
2017	1,001,897	419,331
2018	1,001,897	419,331
2019	838,804	377,397
2020	<u>210,897</u>	<u>-</u>
Total	<u>\$ 4,055,392</u>	<u>\$ 1,635,390</u>

*D. Actuarial Assumptions*

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3% of the first \$15,000 of retirement income
Salary increases	3.5% - 5.5%
Investment rate of return	8.00%

It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational. Mortality for retired members for Group 1 and 2 is repre-

sented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2014.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	32.00%	9.40%
International equities	17.50%	9.70%
Fixed income	19.00%	3.40%
Real estate	9.00%	7.70%
Private equity	8.50%	13.60%
Hedge funds	9.00%	7.90%
Real assets	5.00%	7.90%

*E. Discount Rate*

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

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

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.0%) or 1 percentage-point higher (9.0%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
June 30, 2016	\$ 24,336,309	\$ 19,404,954	\$ 15,195,904

*G. Pension Plan Fiduciary Net Position*

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

**21. Massachusetts Teachers’ Retirement System (MTRS)**

*A. Plan Description*

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

*B. Benefits Provided*

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) estab-

lishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

*C. Contributions*

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

*D. Actuarial Assumptions*

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.

- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
  - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB with a base year of 2014 (gender distinct).
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 return 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. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2015</u>	<u>2014</u>
Global equity	40.0%	6.9%	7.20%
Core fixed income	13.0%	2.4%	2.50%
Private equity	10.0%	8.5%	8.80%
Real estate	10.0%	6.5%	6.30%
Value added fixed income	10.0%	5.8%	6.30%
Hedge funds	9.0%	5.8%	5.50%
Portfolio completion strategies	4.0%	5.5%	0.00%
Timber/natural resources	4.0%	6.6%	5.00%
Total	<u>100.0%</u>		

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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.

*F. Sensitivity Analysis*

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

*G. Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

*H. Town Proportions*

In fiscal year 2015 (the most recent measurement period), the Commonwealth’s proportionate share of the MTRS’ collective net pension liability and pension expense that is associated with the Town was \$53,635,439 and \$4,350,311 respectively, based on a proportionate share of .261769%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

**22. Risk Management**

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

**TOWN OF MEDWAY, MASSACHUSETTS  
SCHEDULE OF OPEB FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2016  
(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
7/1/2015	\$ 250,887	\$ 36,572,225	\$ 36,321,338	0.7%	\$ 19,023,211	190.9%
7/1/2013	\$ 50,489	\$ 38,407,572	\$ 38,357,083	0.1%	\$ 18,282,384	210.1%
7/1/2011	\$ -	\$ 31,351,424	\$ 31,351,424	0.0%	N/A	N/A
7/1/2009	\$ -	\$ 29,616,372	\$ 29,616,372	0.0%	N/A	N/A
7/1/2007	\$ -	\$ 37,604,481	\$ 37,604,481	0.0%	N/A	N/A

See Independent Auditors' Report.



**TOWN OF MEDWAY, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**  
**(Unaudited)**

Norfolk County Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a <u>Percentage of Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2016	3.57226%	\$19,404,954	\$ 9,768,080	198.66%	58.60%
June 30, 2015	3.31514%	\$17,193,151	\$ 9,196,377	187.00%	60.10%

Massachusetts Teachers' Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated <u>with the Town</u>	Total Net Pension Liability Associated with the <u>Town</u>	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a Percentage of <u>Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2016	0.26177%	\$ -	\$ 53,635,439	\$ 53,635,439	\$ 16,593,307	0.00%	55.38%
June 30, 2015	0.26546%	\$ -	\$ 42,198,485	\$ 42,198,485	\$ 16,276,664	0.00%	61.64%

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

See Independent Auditors' Report.

**TOWN OF MEDWAY, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016  
(Unaudited)**

<u>Norfolk County Retirement System</u>					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 1,902,885	\$ 1,902,885	\$ -	\$ 9,768,080	19.48%
June 30, 2015	\$ 1,565,052	\$ 1,565,052	\$ -	\$ 9,196,377	17.00%

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

See Independent Auditors' Report.