

TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

Town of Douglas, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, 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 Douglas, Massachusetts as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts, as of June 30, 2015, 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 Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of 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 November 17, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Douglas, Massachusetts' internal control over financial reporting and compliance.

Melanson Heath

November 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, we offer readers this narrative overview and analysis of the financial activities of the Town of Douglas for the fiscal year ended June 30, 2015.

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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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/sewer, and transfer station 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/sewer and transfer station 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/sewer and transfer station operations, both of 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 \$56,197,226 (i.e., net position), a change of \$1,070,915 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$2,039,013, a change of \$(2,541,171) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,835,698, a change of \$432,079 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$24,452,923, a change of \$(1,574,579) 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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 11,389	\$ 10,661	\$ 1,863	\$ 1,889	\$ 13,252	\$ 12,550
Capital assets	<u>83,237</u>	<u>80,201</u>	<u>9,322</u>	<u>9,593</u>	<u>92,559</u>	<u>89,794</u>
Total assets	94,626	90,862	11,185	11,482	105,811	102,344
Long-term liabilities outstanding	36,142	26,387	3,945	4,114	40,087	30,501
Other liabilities	<u>9,009</u>	<u>6,256</u>	<u>518</u>	<u>481</u>	<u>9,527</u>	<u>6,737</u>
Total liabilities	45,151	32,643	4,463	4,595	49,614	37,238
Net position:						
Net investment in capital assets	59,379	57,817	5,344	5,233	64,723	63,050
Restricted	1,438	1,713	-	-	1,438	1,713
Unrestricted	<u>(11,341)</u>	<u>(1,311)</u>	<u>1,378</u>	<u>1,654</u>	<u>(9,963)</u>	<u>343</u>
Total net position	<u>\$ 49,476</u>	<u>\$ 58,219</u>	<u>\$ 6,722</u>	<u>\$ 6,887</u>	<u>\$ 56,198</u>	<u>\$ 65,106</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,508	\$ 850	\$ 1,415	\$ 1,408	\$ 2,923	\$ 2,258
Operating grants and contributions	12,525	12,061	-	-	12,525	12,061
Capital grants and contributions	401	8,917	-	-	401	8,917
General revenues:						
Property taxes	14,375	14,070	-	-	14,375	14,070
Excises	1,154	1,095	-	-	1,154	1,095
Penalties and interest on taxes	201	139	-	-	201	139
Grants and contributions not restricted to specific programs	962	990	-	-	962	990
Investment income	32	41	3	4	35	45
Other	747	721	8	6	755	727
Total revenues	<u>31,905</u>	<u>38,884</u>	<u>1,426</u>	<u>1,418</u>	<u>33,331</u>	<u>40,302</u>
Expenses:						
General government	1,697	1,692	-	-	1,697	1,692
Public safety	2,480	2,527	-	-	2,480	2,527
Education	19,426	18,109	-	-	19,426	18,109
Public works	1,377	1,246	-	-	1,377	1,246
Human services	264	276	-	-	264	276
Culture and recreation	294	272	-	-	294	272
Employee benefits	3,708	3,514	-	-	3,708	3,514
Intergovernmental	283	354	-	-	283	354
Interest on long-term debt	1,107	883	-	-	1,107	883
Water/sewer operations	-	-	1,306	1,234	1,306	1,234
Transfer station	-	-	224	214	224	214
Total expenses	<u>30,636</u>	<u>28,873</u>	<u>1,530</u>	<u>1,448</u>	<u>32,166</u>	<u>30,321</u>
Change in net position before transfers	1,269	10,011	(104)	(30)	1,165	9,981
Transfers in (out)	<u>(232)</u>	<u>(340)</u>	<u>139</u>	<u>308</u>	<u>(93)</u>	<u>(32)</u>
Change in net position	1,037	9,671	35	278	1,072	9,949
* Net position - beginning of year, as restated	<u>48,439</u>	<u>48,548</u>	<u>6,687</u>	<u>6,609</u>	<u>55,126</u>	<u>55,157</u>
Net position - end of year	<u>\$ 49,476</u>	<u>\$ 58,219</u>	<u>\$ 6,722</u>	<u>\$ 6,887</u>	<u>\$ 56,198</u>	<u>\$ 65,106</u>

*See Note 24.

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 \$56,197,226, a change of \$1,070,915 from the prior year.

The largest portion of net position \$64,723,295 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, \$1,437,685, represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,036,575. Key elements of this change are as follows:

General fund operating results	\$ 335,184
School capital project fund - accrual basis	723,182
Nonmajor funds - accrual basis	551,584
Excess principal maturities, over depreciation a non budgeted expense	(182,523)
Other post employment benefits liability	(951,094)
Net pension liability	(236,970)
Other GAAP accruals	<u>797,212</u>
Total	<u>\$ 1,036,575</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$34,340. Key elements of this change are as follows:

Water/sewer operations	\$ (4,634)
Transfer station operations	<u>38,974</u>
Total	<u>\$ 34,340</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, unreserved 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 \$2,039,013, a change of \$(2,541,171) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 335,184
School capital project fund operating results	(2,407,902)
Nonmajor funds operating results	<u>(468,453)</u>
Total	<u>\$ (2,541,171)</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 \$2,835,698, while total fund balance was \$3,914,637. 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>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,835,698	\$ 2,403,619	\$ 432,079	11.2%
Total fund balance	\$ 3,914,637	\$ 3,579,453	\$ 335,184	15.4%

The total fund balance of the general fund changed by \$335,184 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 526,631
Budgetary appropriation surplus	451,133
Shortfall of tax collections over budget	171,841
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	18,940
Use of free cash	(891,875)
Reserve for reduction of excluded debt	(23,784)
Change in stabilization balance	<u>82,298</u>
Total	<u>\$ 335,184</u>

Included in the total general fund balance is the Town's stabilization account with the following balances:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization	\$ 1,335,292	\$ 1,252,994	\$ 82,298

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 \$1,377,361, a change of \$(276,333) 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 was no overall change in the total appropriation, however there were certain reclassifications as a result of reserve fund transfers and special town meeting transfers. Major reasons for these amendments include:

- \$(40,805) – Various General Government lines
- \$20,350 – Public Safety Police/Fire/Ambulance
- \$6,000 – Municipal Building Expenses
- \$13,105 – Highway/Cemetery
- \$230,000 – Snow/Ice
- \$(61,001) – School
- \$(25,000) – Unemployment

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$92,559,526 (net of accumulated depreciation), a change of \$2,765,876 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:

- \$946,943 of construction in progress on the elementary school
- \$1,895,151 of construction in progress on the middle school

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 \$24,452,923, 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 Douglas' 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 the Town Accountant
Town of Douglas
29 Depot Street
Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 7,669,360	\$ 1,776,766	\$ 9,446,126
Investments	1,422,548	-	1,422,548
Receivables, net of allowance for uncollectibles:			
Property taxes	348,031	-	348,031
Excises	74,748	-	74,748
Other assets	-	7,292	7,292
User fees	-	78,391	78,391
Departmental and other	270,559	-	270,559
Intergovernmental	1,065,200	-	1,065,200
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	532,734	-	532,734
Capital assets:			
Land and construction in progress	53,370,385	401,122	53,771,507
Other capital assets, net of accumulated depreciation	29,866,892	8,921,127	38,788,019
DEFERRED OUTFLOWS OF RESOURCES	<u>6,025</u>	<u>123</u>	<u>6,148</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	94,626,482	11,184,821	105,811,303
LIABILITIES			
Current:			
Warrants payable	436,837	85,249	522,086
Accrued liabilities	1,845,348	42,353	1,887,701
Tax refunds payable	122,792	-	122,792
Notes payable	5,178,384	-	5,178,384
Other current liabilities	187,792	-	187,792
Current portion of long-term liabilities:			
Bonds payable	1,195,000	390,529	1,585,529
Landfill	12,200	-	12,200
Compensated absence	6,510	110	6,620
Bond premium	23,784	-	23,784
Noncurrent:			
Bonds payable, net of current portion	19,280,000	3,587,394	22,867,394
Landfill, net of current portion	61,000	-	61,000
Compensated absence, net of current portion	123,695	2,097	125,792
Bond premium	380,551	-	380,551
Accrued other post employment benefits	6,279,830	150,969	6,430,799
Net pension liability	<u>10,017,220</u>	<u>204,433</u>	<u>10,221,653</u>
TOTAL LIABILITIES	45,150,943	4,463,134	49,614,077
NET POSITION			
Net investment in capital assets	59,378,969	5,344,326	64,723,295
Restricted for:			
Grants and other statutory restrictions	1,331,908	-	1,331,908
Permanent funds:			
Nonexpendable	27,502	-	27,502
Expendable	78,275	-	78,275
Unrestricted	<u>(11,341,115)</u>	<u>1,377,361</u>	<u>(9,963,754)</u>
TOTAL NET POSITION	<u>\$ 49,475,539</u>	<u>\$ 6,721,687</u>	<u>\$ 56,197,226</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 1,697,052	\$ 94,825	\$ 760,734	\$ -	\$ (841,493)	\$ -	\$ (841,493)
Public safety	2,479,670	442,413	386,186	-	(1,651,071)	-	(1,651,071)
Education	19,426,453	376,679	11,338,824	13,639	(7,697,311)	-	(7,697,311)
Public works	1,376,990	585,172	-	387,439	(404,379)	-	(404,379)
Health and human services	263,738	9,269	8,648	-	(245,821)	-	(245,821)
Culture and recreation	293,605	-	30,113	-	(263,492)	-	(263,492)
Employee benefits	3,708,209	-	-	-	(3,708,209)	-	(3,708,209)
Interest	1,107,209	-	-	-	(1,107,209)	-	(1,107,209)
Intergovernmental	283,106	-	-	-	(283,106)	-	(283,106)
Total Governmental Activities	30,636,032	1,508,358	12,524,505	401,078	(16,202,091)	-	(16,202,091)
Business-Type Activities:							
Water/sewer services	1,305,906	1,159,500	-	-	-	(146,406)	(146,406)
Transfer station services	224,235	255,157	-	-	-	30,922	30,922
Total Business-Type Activities	1,530,141	1,414,657	-	-	-	(115,484)	(115,484)
Total	\$ 32,166,173	\$ 2,923,015	\$ 12,524,505	\$ 401,078	(16,202,091)	(115,484)	(16,317,575)
General Revenues and Transfers:							
Property taxes					14,374,918	-	14,374,918
Excises					1,154,396	-	1,154,396
Penalties, interest and other taxes					200,611	-	200,611
Grants and contributions not restricted to specific programs					962,248	-	962,248
Investment income					31,694	3,162	34,856
Miscellaneous					747,285	7,676	754,961
Transfers, net					(232,486)	138,986	(93,500)
Total general revenues and transfers					17,238,666	149,824	17,388,490
Change in Net Position					1,036,575	34,340	1,070,915
Net Position:							
Beginning of year, as restated					48,438,964	6,687,347	55,126,311
End of year					\$ 49,475,539	\$ 6,721,687	\$ 56,197,226

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

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>Capital Project School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 4,400,551	\$ 1,427,131	\$ 1,841,678	\$ 7,669,360
Investments	1,335,292	-	87,256	1,422,548
Receivables:				
Property taxes	1,000,912	-	-	1,000,912
Excises	106,923	-	-	106,923
Departmental and other	30,816	-	372,232	403,048
Intergovernmental	54,643	-	1,010,557	1,065,200
Other assets	-	-	114,223	114,223
TOTAL ASSETS	\$ <u>6,929,137</u>	\$ <u>1,427,131</u>	\$ <u>3,425,946</u>	\$ <u>11,782,214</u>
LIABILITIES				
Warrants payable	\$ 161,445	\$ 75,457	\$ 199,935	\$ 436,837
Accrued liabilities	1,497,299	-	-	1,497,299
Tax refunds payable	122,792	-	-	122,792
Notes payable	-	4,683,384	495,000	5,178,384
Other liabilities	187,792	-	-	187,792
TOTAL LIABILITIES	1,969,328	4,758,841	694,935	7,423,104
DEFERRED INFLOWS OF RESOURCES	1,045,172	-	1,274,925	2,320,097
FUND BALANCES				
Nonspendable	-	-	27,502	27,502
Restricted	-	-	2,071,445	2,071,445
Committed	270,978	-	302,102	573,080
Assigned	807,961	-	-	807,961
Unassigned	2,835,698	(3,331,710)	(944,963)	(1,440,975)
TOTAL FUND BALANCES	<u>3,914,637</u>	<u>(3,331,710)</u>	<u>1,456,086</u>	<u>2,039,013</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>6,929,137</u>	\$ <u>1,427,131</u>	\$ <u>3,425,946</u>	\$ <u>11,782,214</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

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

JUNE 30, 2015

Total governmental fund balances	\$ 2,039,013
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	83,237,277
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,921,063
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(348,049)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(27,362,570)
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>(10,011,195)</u>
Net position of governmental activities	<u><u>\$ 49,475,539</u></u>

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

TOWN OF DOUGLAS, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	Capital Project School <u>Construction</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Property taxes	\$ 14,455,835	\$ -	\$ -	\$ 14,455,835
Excises	1,146,479	-	2,985	1,149,464
Penalties, interest and other taxes	200,611	-	-	200,611
Charges for services	112,402	-	668,271	780,673
Intergovernmental	9,464,252	13,639	2,755,933	12,233,824
Licenses and permits	143,109	-	-	143,109
Fines and forfeitures	38,548	-	765	39,313
Investment income	30,500	-	1,194	31,694
Miscellaneous	<u>132,991</u>	<u>222,850</u>	<u>443,096</u>	<u>798,937</u>
Total Revenues	25,724,727	236,489	3,872,244	29,833,460
Expenditures:				
Current:				
General government	1,640,454	-	-	1,640,454
Public safety	2,392,747	-	141,058	2,533,805
Education	14,063,307	2,842,094	88,801	16,994,202
Public works	1,010,606	-	2,303,722	3,314,328
Health and human services	197,275	-	1,251,130	1,448,405
Culture and recreation	206,599	-	64,619	271,218
Employee benefits	3,263,745	-	79,595	3,343,340
Miscellaneous	-	-	1,894	1,894
Debt service	2,311,393	-	-	2,311,393
Intergovernmental	<u>283,106</u>	<u>-</u>	<u>-</u>	<u>283,106</u>
Total Expenditures	<u>25,369,232</u>	<u>2,842,094</u>	<u>3,930,819</u>	<u>32,142,145</u>
Excess (deficiency) of revenues over expenditures	355,495	(2,605,605)	(58,575)	(2,308,685)
Other Financing Sources (Uses):				
Transfers in	441,085	197,703	195,000	833,788
Transfers out	<u>(461,396)</u>	<u>-</u>	<u>(604,878)</u>	<u>(1,066,274)</u>
Total Other Financing Sources (Uses)	<u>(20,311)</u>	<u>197,703</u>	<u>(409,878)</u>	<u>(232,486)</u>
Change in fund balance	335,184	(2,407,902)	(468,453)	(2,541,171)
Fund Equity, at Beginning of Year	<u>3,579,453</u>	<u>(923,808)</u>	<u>1,924,539</u>	<u>4,580,184</u>
Fund Equity, at End of Year	<u>\$ 3,914,637</u>	<u>\$ (3,331,710)</u>	<u>\$ 1,456,086</u>	<u>\$ 2,039,013</u>

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

TOWN OF DOUGLAS, 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, 2015

Net changes in fund balances - total governmental funds	\$ (2,541,171)
<ul style="list-style-type: none"> 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: 	
Capital outlay purchases	4,434,713
Loss on disposition of assets	(22,810)
Depreciation	(1,375,502)
<ul style="list-style-type: none"> 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. 	
	526,107
<ul style="list-style-type: none"> 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: 	
Repayments of debt	1,192,979
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	(12,579)
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
	(934,217)
<ul style="list-style-type: none"> Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds. 	
	<u>(230,945)</u>
Change in net position of governmental activities	\$ <u>1,036,575</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Taxes	\$ 14,283,994	\$ 14,283,994	\$ 14,283,994	\$ -
Excise	941,400	941,400	1,146,479	205,079
Penalties, interest and other taxes	110,000	110,000	200,611	90,611
Charges for services	97,885	97,885	112,402	14,517
Intergovernmental	9,446,325	9,446,325	9,464,252	17,927
Licenses and permits	100,600	100,600	143,109	42,509
Fines and forfeits	20,000	20,000	38,548	18,548
Investment income	20,000	20,000	18,341	(1,659)
Miscellaneous	30,000	30,000	132,991	102,991
Transfers in	473,613	473,613	509,721	36,108
Use of free cash	891,875	891,875	891,875	-
Other sources	<u>23,784</u>	<u>23,784</u>	<u>23,784</u>	<u>-</u>
Total Revenues and Other Sources	26,439,476	26,439,476	26,966,107	526,631
Expenditures and Other Uses:				
General government	1,765,868	1,765,868	1,663,715	102,153
Public safety	2,435,619	2,435,619	2,375,116	60,503
Education	14,105,924	14,105,924	14,066,532	39,392
Public works	1,039,502	1,039,502	1,011,955	27,547
Health and human services	233,577	233,577	197,233	36,344
Culture and recreation	213,738	213,738	206,599	7,139
Debt service	2,677,022	2,677,022	2,619,289	57,733
Intergovernmental	350,981	350,981	283,106	67,875
Employee benefits	3,324,970	3,324,970	3,272,523	52,447
Transfers out	<u>292,275</u>	<u>292,275</u>	<u>292,275</u>	<u>-</u>
Total Expenditures and Other Uses	<u>26,439,476</u>	<u>26,439,476</u>	<u>25,988,343</u>	<u>451,133</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>977,764</u>	\$ <u>977,764</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 1,430,191	\$ 346,575	\$ 1,776,766
Other assets	7,292	-	7,292
User fees, net of allowance for uncollectibles	<u>78,391</u>	<u>-</u>	<u>78,391</u>
Total current assets	1,515,874	346,575	1,862,449
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net of accumulated depreciation	<u>8,917,437</u>	<u>3,690</u>	<u>8,921,127</u>
Total noncurrent assets	<u>9,306,821</u>	<u>15,428</u>	<u>9,322,249</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>123</u>	<u>-</u>	<u>123</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	10,822,818	362,003	11,184,821
LIABILITIES			
Current:			
Warrants payable	67,772	17,477	85,249
Accrued liabilities	42,353	-	42,353
Current portion of long-term liabilities:			
Bonds payable	390,529	-	390,529
Compensated absences	<u>110</u>	<u>-</u>	<u>110</u>
Total current liabilities	500,764	17,477	518,241
Noncurrent:			
Bonds payable, net of current portion	3,587,394	-	3,587,394
Compensated absences	2,097	-	2,097
Accrued other post employment benefits	150,969	-	150,969
Net pension liability	<u>204,433</u>	<u>-</u>	<u>204,433</u>
Total noncurrent liabilities	<u>3,944,893</u>	<u>-</u>	<u>3,944,893</u>
TOTAL LIABILITIES	4,445,657	17,477	4,463,134
NET POSITION			
Net investment in capital assets	5,328,898	15,428	5,344,326
Unrestricted	<u>1,048,263</u>	<u>329,098</u>	<u>1,377,361</u>
TOTAL NET POSITION	<u>\$ 6,377,161</u>	<u>\$ 344,526</u>	<u>\$ 6,721,687</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 1,159,500	\$ 255,157	\$ 1,414,657
Other	282	7,394	7,676
Total Operating Revenues	1,159,782	262,551	1,422,333
Operating Expenses:			
Operating expenses	849,539	223,977	1,073,516
Depreciation	333,083	258	333,341
Total Operating Expenses	1,182,622	224,235	1,406,857
Operating Income (Loss)	(22,840)	38,316	15,476
Nonoperating Revenues (Expenses):			
Investment income	2,504	658	3,162
Interest expense	(123,284)	-	(123,284)
Total Nonoperating Revenues (Expenses), Net	(120,780)	658	(120,122)
Income (Loss) Before Transfers	(143,620)	38,974	(104,646)
Transfers:			
Transfers in	307,896	-	307,896
Transfers out	(168,910)	-	(168,910)
Change in Net Position	(4,634)	38,974	34,340
Net Position at Beginning of Year, as restated	6,381,795	305,552	6,687,347
Net Position at End of Year	\$ 6,377,161	\$ 344,526	\$ 6,721,687

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,167,843	\$ 262,551	\$ 1,430,394
Payments to vendors and employees	(793,705)	(222,991)	(1,016,696)
Net Cash Provided By Operating Activities	374,138	39,560	413,698
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	307,896	-	307,896
Transfers out	(168,910)	-	(168,910)
Net Cash Provided By Noncapital Financing Activities	138,986	-	138,986
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(62,817)	-	(62,817)
Principal payments on bonds and notes	(381,600)	-	(381,600)
Interest expense	(123,284)	-	(123,284)
Net Cash (Used For) Capital and Related Financing Activities	(567,701)	-	(567,701)
<u>Cash Flows From Investing Activities:</u>			
Investment income	2,504	658	3,162
Net Cash Provided By Investing Activities	2,504	658	3,162
Net Change in Cash and Short-Term Investments	(52,073)	40,218	(11,855)
Cash and Short-Term Investments, Beginning of Year	1,482,264	306,357	1,788,621
Cash and Short-Term Investments, End of Year	\$ 1,430,191	\$ 346,575	\$ 1,776,766
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ (22,840)	\$ 38,316	\$ 15,476
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	333,083	258	333,341
Changes in assets and liabilities:			
User fees	8,060	-	8,060
Other assets	6,303	-	6,303
Warrants and accounts payable	21,602	986	22,588
Accrued liabilities	6,282	-	6,282
Accrued other post employment benefits	16,812	-	16,812
Net pension liability	4,836	-	4,836
Net Cash Provided By Operating Activities	\$ 374,138	\$ 39,560	\$ 413,698

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

TOWN OF DOUGLAS, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2015

	Private Purpose Trust <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 45,172	\$ -	\$ 255,183
Investments	53,465	128,356	-
Accounts receivable	-	-	<u>6,274</u>
Total Assets	<u>98,637</u>	<u>128,356</u>	<u>261,457</u>
 <u>LIABILITIES AND NET POSITION</u>			
Accounts payable	300	-	18,639
Other liabilities	-	-	<u>242,818</u>
Total Liabilities	<u>300</u>	<u>-</u>	<u>261,457</u>
 <u>NET POSITION</u>			
Total net position held in trust	<u>\$ 98,337</u>	<u>\$ 128,356</u>	<u>\$ -</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Funds</u>	<u>Other Post-Employment Benefits Trust Fund</u>
Additions:		
Interest income	\$ 592	\$ 1,154
Transfers in	<u>-</u>	<u>93,500</u>
Total additions	592	94,654
Deductions:		
Education	<u>800</u>	<u>-</u>
Total deductions	<u>800</u>	<u>-</u>
Net increase	(208)	94,654
Net position:		
Beginning of year	<u>98,545</u>	<u>33,702</u>
End of year	<u>\$ 98,337</u>	<u>\$ 128,356</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas (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 2015, 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 *school construction capital project fund* accounts for the operations pertaining to the construction of the Douglas schools.

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 nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

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.

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. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at market value.

F. 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 2015 tax levy reflected an excess capacity of \$2,195.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) 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 \$5,000 and an estimated useful life in excess of five 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
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. 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.

I. 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.

J. 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.

K. 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)	\$ 25,724,727	\$ 25,369,232
Other financing sources/uses (GAAP basis)	<u>441,085</u>	<u>461,396</u>
Subtotal (GAAP Basis)	26,165,812	25,830,628
Adjust tax revenue to accrual basis	(171,841)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(275,397)
To book current year appropriation carryforwards	-	294,337
To record use of free cash	891,875	-
Reserve for reduction of excluded debt	23,784	-
To remove unbudgeted stabilization fund	<u>56,477</u>	<u>138,775</u>
Budgetary basis	<u>\$ 26,966,107</u>	<u>\$ 25,988,343</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

State 911	\$ (22,109)
911 training	(6,479)
Public health	(629)
Collaborative for education	(1,000)
Title I	(27,058)
DEA task	(1,201)
FEMA	(37,854)
FY13 EMPG	(2,295)
FY14 EMPG	(2,780)
Chapter 90	(559,858)
Elementary/Middle School	<u>(3,615,410)</u>
Total	<u>\$ (4,276,673)</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. 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."

As of June 30, 2015, none of the Town's bank balances of \$9,950,708 was exposed to custodial credit risk as uninsured or uncollateralized.

4. **Investments**

A. *Credit Risk*

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

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
				<u>Aaa</u>	<u>Aa+</u>	<u>A+</u>	<u>BBB+</u>
Certificates of deposits	\$ 527		\$ -	\$ 527	\$ -	\$ -	\$ -
Corporate bonds	136		-	-	26	50	60
Corporate equities	227	N/A	227	-	-	-	-
Mutual funds	254	N/A	254	-	-	-	-
Federal agency securities	<u>460</u>		<u>-</u>	<u>460</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,604</u>		<u>\$ 481</u>	<u>\$ 987</u>	<u>\$ 26</u>	<u>\$ 50</u>	<u>\$ 60</u>

B. *Custodial Credit Risk*

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

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

State Bk India New York NY	\$ 75,278	5%
Firstbank P R Santurce	\$ 95,254	6%

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>N/A</u>
Certificates of deposit	\$ 527	\$ 527	\$ -
Corporate bonds	136	136	-
Corporate equities	227	-	227
Mutual funds	254	-	254
Federal agency securities	460	460	-
Total	<u>\$ 1,604</u>	<u>\$ 1,123</u>	<u>\$ 481</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy is not to invest in foreign currency investments.

5. 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, 2015 consist of the following (in thousands):

Real Estate		
2015	\$ 375	
2014	9	
2012	2	
Prior	<u>4</u>	
		390
Personal Property		
2015	6	
2014	1	
2013	2	
Prior	<u>10</u>	
		19
Tax Liens		<u>591</u>
Total		<u>\$ 1,000</u>

6. 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>
Property taxes	\$ 119
Excises	\$ 32
Other	\$ 247

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

8. Interfund Fund Transfers

Transfers between Governmental and Business-Type Activities do not offset by \$(93,500). This is due to a transfer between the Other Post-Employment Benefits Trust fund and Governmental funds.

9. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 32,031	\$ 70	\$ -	\$ 32,101
Machinery, equipment, and furnishings	6,634	538	(57)	7,115
Infrastructure	<u>9,533</u>	<u>950</u>	<u>-</u>	<u>10,483</u>
Total capital assets, being depreciated	48,198	1,558	(57)	49,699
Less accumulated depreciation for:				
Buildings and improvements	(11,735)	(813)	-	(12,548)
Machinery, equipment, and furnishings	(5,673)	(226)	34	(5,865)
Infrastructure	<u>(1,083)</u>	<u>(336)</u>	<u>-</u>	<u>(1,419)</u>
Total accumulated depreciation	<u>(18,491)</u>	<u>(1,375)</u>	<u>34</u>	<u>(19,832)</u>
Total capital assets, being depreciated, net	29,707	183	(23)	29,867
Capital assets, not being depreciated:				
Land	6,053	-	-	6,053
Construction in progress	<u>44,441</u>	<u>2,876</u>	<u>-</u>	<u>47,317</u>
Total capital assets, not being depreciated	<u>50,494</u>	<u>2,876</u>	<u>-</u>	<u>53,370</u>
Governmental activities capital assets, net	<u>\$ 80,201</u>	<u>\$ 3,059</u>	<u>\$ (23)</u>	<u>\$ 83,237</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,057	\$ -	\$ -	\$ 8,057
Machinery, equipment, and furnishings	84	63	-	147
Infrastructure	<u>5,559</u>	<u>-</u>	<u>-</u>	<u>5,559</u>
Total capital assets, being depreciated	13,700	63	-	13,763
Less accumulated depreciation for:				
Buildings and improvements	(1,696)	(190)	-	(1,886)
Machinery, equipment, and furnishings	(60)	(9)	-	(69)
Infrastructure	<u>(2,752)</u>	<u>(135)</u>	<u>-</u>	<u>(2,887)</u>
Total accumulated depreciation	<u>(4,508)</u>	<u>(334)</u>	<u>-</u>	<u>(4,842)</u>
Total capital assets, being depreciated, net	9,192	(271)	-	8,921
Capital assets, not being depreciated:				
Land	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Total capital assets, not being depreciated	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Business-type activities capital assets, net	<u>\$ 9,593</u>	<u>\$ (271)</u>	<u>\$ -</u>	<u>\$ 9,322</u>

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

Governmental Activities:	
General government	\$ 34
Public safety	179
Education	784
Public works	369
Culture and recreation	<u>9</u>
Total depreciation expense - governmental activities	<u>\$ 1,375</u>
Business-Type Activities:	
Water/sewer	<u>\$ 334</u>
Total depreciation expense - business-type activities	<u>\$ 334</u>

10. 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, 2015:

	<u>Entity-wide</u>
	<u>Governmental</u>
	<u>Activities</u>
Net difference between projected and actual pension investment earnings	\$ 6,148

11. Warrants Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
Land	07/15/18	4.10%	\$ 60,000
Land	12/15/21	4.36%	350,000
Elementary and middle school	01/15/32	3.93%	17,355,000
Refunding	06/01/22	1.59%	<u>2,710,000</u>
Total Governmental Activities:			<u>\$ 20,475,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
Water tank refunding	01/15/17	1.78%	\$ 80,000
Water refunding	01/15/21	2.13%	55,000
Water refunding	01/15/20	2.41%	25,000
Manchaug sewer improvement	01/15/19	2.13%	40,000
Sewer plant	02/01/25	2.00%	3,598,537
Sewer plant	07/15/24	2.00%	<u>179,386</u>
Total Business-Type Activities:			<u>\$ 3,977,923</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,195,000	\$ 832,789	\$ 2,027,789
2017	1,230,000	780,389	2,010,389
2018	1,255,000	730,129	1,985,129
2019	1,290,000	687,148	1,977,148
2020	1,310,000	631,275	1,941,275
2021 - 2025	5,695,000	2,435,475	8,130,475
2026 - 2030	5,795,000	1,383,075	7,178,075
2031 - 2032	<u>2,705,000</u>	<u>184,050</u>	<u>2,889,050</u>
Total	<u>\$ 20,475,000</u>	<u>\$ 7,664,330</u>	<u>\$ 28,139,330</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 390,529	\$ 101,577	\$ 492,106
2017	389,428	81,361	470,789
2018	367,617	65,467	433,084
2019	380,814	51,633	432,447
2020	384,016	37,519	421,535
2021 - 2025	<u>2,065,519</u>	<u>45,151</u>	<u>2,110,670</u>
Total	<u>\$ 3,977,923</u>	<u>\$ 382,708</u>	<u>\$ 4,360,631</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/14</u>	Additions	Reductions	Total Balance <u>6/30/15</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/15</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 21,668	\$ -	\$ (1,193)	\$ 20,475	\$ (1,195)	\$ 19,280
Other:						
Landfill closure	85	-	(12)	73	(12)	61
Compensated absences	111	19	-	130	(6)	124
Bond premium	428	-	(24)	404	(24)	380
Accrued other post-employment benefits	5,329	951	-	6,280	-	6,280
Net pension liability	<u>9,780</u>	<u>237</u>	<u>-</u>	<u>10,017</u>	<u>-</u>	<u>10,017</u>
Totals	<u>\$ 37,401</u>	<u>\$ 1,207</u>	<u>\$ (1,229)</u>	<u>\$ 37,379</u>	<u>\$ (1,237)</u>	<u>\$ 36,142</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,360	\$ -	\$ (382)	\$ 3,978	\$ (391)	\$ 3,587
Compensated absences	2	-	-	2	-	2
Accrued other post-employment benefits	134	17	-	151	-	151
Net pension liability	<u>200</u>	<u>5</u>	<u>-</u>	<u>205</u>	<u>-</u>	<u>205</u>
Totals	<u>\$ 4,696</u>	<u>\$ 22</u>	<u>\$ (382)</u>	<u>\$ 4,336</u>	<u>\$ (391)</u>	<u>\$ 3,945</u>

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town reported \$73,200 as landfill closure and postclosure care liability at June 30, 2015. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. 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, 2015:

	<u>Fund Basis</u>	
	<u>Governmental Funds</u>	
	<u>General Fund</u>	<u>Nonmajor</u>
Unavailable revenues	\$ 1,045,172	\$ 1,274,925

16. 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.

17. 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, 2015:

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 general fund encumbrances for non-lapsing, 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.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2015:

	General Fund	Capital Project School Construction	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 27,502	\$ 27,502
Total Nonspendable	-	-	27,502	27,502
Restricted				
Special revenue funds	-	-	1,993,170	1,993,170
Expendable permanent funds	-	-	78,275	78,275
Total Restricted	-	-	2,071,445	2,071,445
Committed				
Reserve for continuing appropriations				
General government	127,070	-	-	127,070
Public safety	11,079	-	-	11,079
Public works	62,562	-	-	62,562
Culture and recreation	4,900	-	-	4,900
Employee benefits	65,367	-	-	65,367
Capital project funds	-	-	302,102	302,102
Total Committed	270,978	-	302,102	573,080
Assigned				
Encumbrances				
General government	23,360	-	-	23,360
Reserve for south street	14,152	-	-	14,152
Reserve for debt exclusion	380,551	-	-	380,551
Reserved for expenditures	389,798	-	-	389,798
Other	100	-	-	100
Total Assigned	807,961	-	-	807,961
Unassigned				
General operating stabilization	1,335,292	-	-	1,335,292
General fund	1,500,406	(3,331,710)	(944,963)	(2,776,267)
Total Unassigned	2,835,698	(3,331,710)	(944,963)	(1,440,975)
Total Fund Balance	\$ 3,914,637	\$ (3,331,710)	\$ 1,456,086	\$ 2,039,013

18. 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	\$ 2,835,698
Stabilization fund	(1,335,292)
Tax refund estimate	<u>122,792</u>
Statutory (UMAS) Balance	<u>\$ 1,623,198</u>

19. 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.

20. 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, 2014, the actuarial valuation date, approximately 97 retirees and 254 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 and life insurance, as determined by the Town. The Town contributes the remainder of the health plan and life insurance costs toward \$1,000 coverage on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2015 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, 2015, 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, 2014.

Annual Required Contribution (ARC)	\$ 1,304,479
Interest on net OPEB obligation	218,516
Adjustment to ARC	<u>(341,984)</u>
Annual OPEB cost	1,181,011
Contributions made	<u>(213,105)</u>
Increase in net OPEB obligation	967,906
Net OPEB obligation - beginning of year	<u>5,462,893</u>
Net OPEB obligation - end of year	<u>\$ 6,430,799</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>
2015	\$ 1,181,011	18%	\$ 6,430,799
2014	\$ 1,298,697	27%	\$ 5,462,893
2013	\$ 1,234,113	25%	\$ 4,507,876

The Town's net OPEB obligation as of June 30, 2015 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, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 10,890,813
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 10,890,813</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 15,205,579</u>
UAAL as a percentage of covered payroll	<u>72%</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 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 tech-

niques 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, 2014 actuarial valuation the projected unit credit 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% investment rate of return and an initial annual healthcare cost trend rate of 6%, which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

21. **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 (except teachers and administrators under contract employed by the School Department) are members of the Worcester 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 Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501 or from the System's website at www.worcesterregionalretirement.org.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was

on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. 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.

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.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

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

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

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, 2015 was \$678,830, which was equal to its annual required contribution.

D. 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.

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

At June 30, 2015, the Town reported a liability of \$10,221,653 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. 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 December 31, 2014, the Town's proportion was 1.717729 percent.

For the year ended June 30, 2015, the Town recognized pension expense of \$914,488. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 6,148
Total	\$ 6,148

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:	
2015	\$ 1,537
2016	1,537
2017	1,537
2018	<u>1,537</u>
Total	\$ <u>6,148</u>

Actuarial assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3% of the first \$14,000
Salary increases	3% per year, including longevity
Investment rate of return	8%

Mortality rates were based on the RP-2000 mortality table (sex-distinct, healthy employees for actives and healthy annuitants for retirees) projected with a scale AA and Generational Mortality. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality is the healthy retiree table ages set forward 2 years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2013 through December 31, 2013.

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 an expected inflation rate. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed income	23.00%	5.05%
International equity	43.00%	8.23%
Real estate	10.00%	6.50%
Private equity	10.00%	9.75%
Timber/Natural resources	4.00%	6.88%
Hedge funds	<u>10.00%</u>	7.00%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8%. 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.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 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%) or 1 percentage-point higher (9%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
6/30/2015	\$ 12,445,291	\$ 10,221,653	\$ 8,333,433

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

22. 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 nonemployer 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) establishes 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, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% 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-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender-distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender-distinct) set forward 3 years for males.

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, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timeber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that 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 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,427,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial 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 2014 (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 \$22,574,170 and \$1,568,336 respectively, based on a proportionate share of .14%. 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.

23. 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.

24. Beginning Net Position Restatement

The beginning (July 1, 2014) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Business-Type Activities Enterprise Funds</u>	<u>Total</u>
As previously reported	\$ 58,219,214	\$ 6,886,944	\$ 65,106,158
GASB 68 implementation	<u>(9,780,250)</u>	<u>(199,597)</u>	<u>(9,979,847)</u>
As restated	<u>\$ 48,438,964</u>	<u>\$ 6,687,347</u>	<u>\$ 55,126,311</u>

**TOWN OF DOUGLAS, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2015

(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]
7/1/2014	\$ -	\$ 10,890,813	\$ 10,890,813	0%	\$ 15,205,579	72%
7/1/2012	\$ -	\$ 11,261,317	\$ 11,261,317	0%	\$ 13,503,832	83%
7/1/2010	\$ -	\$ 10,786,564	\$ 10,786,564	0%	\$ 13,965,267	77%
7/1/2008	\$ -	\$ 11,385,000	\$ 11,385,000	0%	\$ 17,172,000	66%

See Independent Auditors' Report.

TOWN OF DOUGLAS, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)

<u>Worcester Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	1.7177%
Proportionate share of the net pension liability for the most recent measurement date	\$ 10,221,653
Covered-employee payroll for the most recent measurement date	\$ 5,508,787
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	186%
Plan fiduciary net position as a percentage of the total pension liability	48%
 <u>Massachusetts Teachers' Retirement System:</u>	 <u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.14%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>22,574,170</u>
Total net pension liability associated with the Town	<u>\$ 22,574,170</u>
Covered-employee payroll for the most recent measurement date	\$ 8,707,212
The Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	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 DOUGLAS, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Worcester Contributory Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 678,830
Contributions in relation to the contractually required contribution	<u>(678,830)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 5,508,787
Contributions as a percentage of covered-employee payroll	12%

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

See Independent Auditors' Report.