

TOWN OF TOWNSEND, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

TOWN OF TOWNSEND, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Townsend, 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 Townsend, 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. 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 Townsend, 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 OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

March 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Townsend, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town of Townsend, Massachusetts 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, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, sanitation, health and human services, and culture and recreation. The business-type activities include water operations.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 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 operations, which is considered to be a major fund.

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 and direct outflows exceeded liabilities by \$31,051,139 (i.e., net position), a change of \$(557,074) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,271,902, a change of \$(685,333) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,453,887, a change of \$253,892 in comparison to the prior year.
- Total long-term debt at the close of the current fiscal year was \$3,376,359, a change of \$(524,366) 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 (in thousands):

	<u>NET POSITION</u>					
	<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>
Current and other assets	\$ 6,998	\$ 6,999	\$ 1,821	\$ 1,837	\$ 8,819	\$ 8,836
Capital assets	30,063	30,549	3,975	3,965	34,038	34,514
Deferred outflows of resources	21	-	2	-	23	-
Total assets and deferred outflows	<u>37,082</u>	<u>37,548</u>	<u>5,798</u>	<u>5,802</u>	<u>42,880</u>	<u>43,350</u>
Long-term liabilities	8,698	3,075	1,825	1,287	10,523	4,362
Other liabilities	1,269	522	37	73	1,306	595
Total liabilities	<u>9,967</u>	<u>3,597</u>	<u>1,862</u>	<u>1,360</u>	<u>11,829</u>	<u>4,957</u>
Net position:						
Net investment in capital assets	27,448	28,048	2,875	2,649	30,323	30,697
Restricted	1,756	1,662	-	-	1,756	1,662
Unrestricted	(2,089)	4,241	1,061	1,793	(1,028)	6,034
Total net position	<u>\$ 27,115</u>	<u>\$ 33,951</u>	<u>\$ 3,936</u>	<u>\$ 4,442</u>	<u>\$ 31,051</u>	<u>\$ 38,393</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	\$ 1,066	\$ 1,001	\$ 1,053	\$ 1,104	\$ 2,119	\$ 2,105
Operating grants and contributions	165	388	-	-	165	388
Capital grants and contributions	350	480	-	-	350	480
General revenues:						
Property taxes	14,858	14,406	-	-	14,858	14,406
Excises	1,243	1,011	-	-	1,243	1,011
Penalties and interest on taxes	289	231	-	-	289	231
Grants and contributions not restricted to specific programs	1,389	1,384	-	-	1,389	1,384
Investment income	46	48	-	-	46	48
Other	39	13	-	-	39	13
Total revenues	<u>19,445</u>	<u>18,962</u>	<u>1,053</u>	<u>1,104</u>	<u>20,498</u>	<u>20,066</u>
Expenses:						
General government	2,118	2,367	-	-	2,118	2,367
Public safety	4,127	4,120	-	-	4,127	4,120
Education	10,021	9,544	-	-	10,021	9,544
Public works	2,339	1,627	-	-	2,339	1,627
Sanitation	733	735	-	-	733	735
Human services	354	333	-	-	354	333
Culture and recreation	432	435	-	-	432	435
Interest on long-term debt	89	102	-	-	89	102
Intergovernmental	70	69	-	-	70	69
Water operations	-	-	772	689	772	689
Total expenses	<u>20,283</u>	<u>19,332</u>	<u>772</u>	<u>689</u>	<u>21,055</u>	<u>20,021</u>
Change in net position before transfers	(838)	(370)	281	415	(557)	45
Transfers in (out)	<u>140</u>	<u>138</u>	<u>(140)</u>	<u>(138)</u>	<u>-</u>	<u>-</u>
Change in net position	(698)	(232)	141	277	(557)	45
Net position - beginning of year, as restated*	<u>27,813</u>	<u>34,183</u>	<u>3,795</u>	<u>4,165</u>	<u>31,608</u>	<u>38,348</u>
Net position - end of year	<u>\$ 27,115</u>	<u>\$ 33,951</u>	<u>\$ 3,936</u>	<u>\$ 4,442</u>	<u>\$ 31,051</u>	<u>\$ 38,393</u>

* July 1, 2014 net position was restated for GASB 68. Due to fiscal year 2015 being the first year of implementation of GASB 68, prior periods have not been restated in accordance with the standards. Refer to Note 22.

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 \$31,051,139, a change of \$(557,074) from the prior year.

The largest portion of net position, \$30,323,263, 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, \$1,755,836, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(1,027,960), primarily resulting from recording the Town's net pension liability.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(698,605). Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (424,478)
Nonmajor funds expenditures in excess of revenues	(401,318)
Enterprise fund indirect costs, net	140,463
Excess of current year depreciation expense over debt service principal payments	(826,768)
Capital assets funded by sources other than long-term debt	760,398
Decrease in net pension liability, net of related deferred outflows	57,884
Other	<u>(4,786)</u>
Total	<u>\$ (698,605)</u>

Business-type activities. Business-type activities (water fund) for the year resulted in a change in net position of \$141,531.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,271,902, a change of \$(685,333) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (424,478)
Nonmajor funds expenditures in excess of revenues	(401,318)
Enterprise fund indirect costs, net	<u>140,463</u>
Total	<u>\$ (685,333)</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 \$2,453,887, while total fund balance was \$3,355,681. 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	\$ 2,453,887	\$ 2,199,995	\$ 253,892	13.2%
Total fund balance	\$ 3,355,681	\$ 3,295,842	\$ 59,839	18.0%

The total fund balance of the general fund changed by \$59,839 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (745,000)
Revenues in excess of budget	409,539
Expenditures less than budget	258,817
Change in stabilization accounts	141,364
Other	<u>(4,881)</u>
Total	<u>\$ 59,839</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization	\$ 1,285,168	\$ 1,070,347	\$ 214,821
Capital stabilization	<u>544,514</u>	<u>617,971</u>	<u>(73,457)</u>
Total	<u>\$ 1,829,682</u>	<u>\$ 1,688,318</u>	<u>\$ 141,364</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,061,345, a change of \$(731,353) 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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$711,000. The entirety of the increase was funded from free cash.

The budget increase was for the following purposes:

- \$400,000 For stabilization funding
- \$175,000 For funding of snow and ice deficit
- \$50,000 For debt service
- \$35,000 For management information systems
- \$20,000 For fire relocation
- \$31,000 Other departmental expenditures

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$34,038,585 (net of accumulated depreciation), a change of \$(475,109) 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:

Governmental activities:

- \$256,416 Highway vehicles and machinery
- \$190,000 Street sweeper
- \$150,000 Various roadway improvements
- \$77,550 Fire/ambulance machinery and equipment
- \$53,040 Police cruisers
- \$32,655 Other

Business-type activities:

The water fund capitalized \$125,495 of water meter upgrade construction-in-progress during fiscal year 2015.

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 \$3,376,359, 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's 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:

Town Administrator
Memorial Hall, Upper Level
272 Main Street
Townsend, Massachusetts 01469

TOWN OF TOWNSEND, 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	\$ 3,332,430	\$ 1,507,141	\$ 4,839,571
Investments	2,121,212	-	2,121,212
Receivables, net of allowance for uncollectibles:			
Property taxes	336,248	-	336,248
Excises	114,052	-	114,052
User fees	-	313,717	313,717
Departmental and other	363,718	-	363,718
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	730,100	-	730,100
Capital assets, net of accumulated depreciation	26,553,544	2,965,833	29,519,377
Capital assets, not being depreciated	3,509,641	1,009,567	4,519,208
Deferred Outflows of Resources	<u>20,600</u>	<u>2,171</u>	<u>22,771</u>
Total Assets and Deferred Outflows of Resources	37,081,545	5,798,429	42,879,974
Liabilities			
Current:			
Warrants payable	385,669	-	385,669
Accrued liabilities	126,324	26,275	152,599
Notes payable	730,000	-	730,000
Other current liabilities	27,074	11,326	38,400
Current portion of long-term liabilities:			
Bonds payable	419,138	101,681	520,819
Landfill	18,500	-	18,500
Noncurrent:			
Bonds payable, net of current portion	1,775,579	1,079,961	2,855,540
Landfill, net of current portion	384,500	-	384,500
Net pension liability	6,099,925	642,883	6,742,808
Total Liabilities	9,966,709	1,862,126	11,828,835
Net Position			
Net investment in capital assets	27,448,305	2,874,958	30,323,263
Restricted for:			
Grants and other statutory restrictions	1,340,599	-	1,340,599
Permanent funds:			
Nonexpendable	312,030	-	312,030
Expendable	103,207	-	103,207
Unrestricted	<u>(2,089,305)</u>	<u>1,061,345</u>	<u>(1,027,960)</u>
Total Net Position	<u>\$ 27,114,836</u>	<u>\$ 3,936,303</u>	<u>\$ 31,051,139</u>

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

TOWN OF TOWNSEND, 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	\$ 2,118,967	\$ 217,174	\$ 9,538	\$ -	\$ (1,892,255)	\$ -	\$ (1,892,255)
Public safety	4,127,307	719,982	30,661	897	(3,375,767)	-	(3,375,767)
Education	10,021,440	-	-	-	(10,021,440)	-	(10,021,440)
Public works	2,338,745	42,668	-	349,008	(1,947,069)	-	(1,947,069)
Sanitation	732,513	-	-	-	(732,513)	-	(732,513)
Health and human services	353,895	23,495	106,417	-	(223,983)	-	(223,983)
Culture and recreation	432,289	62,847	18,554	-	(350,888)	-	(350,888)
Interest	89,125	-	-	-	(89,125)	-	(89,125)
Intergovernmental	70,362	-	-	-	(70,362)	-	(70,362)
Total Governmental Activities	20,284,643	1,066,166	165,170	349,905	(18,703,402)	-	(18,703,402)
Business-Type Activities:							
Water operations	772,327	1,053,087	-	-	-	280,760	280,760
Total Business-Type Activities	772,327	1,053,087	-	-	-	280,760	280,760
Total	\$ 21,056,970	\$ 2,119,253	\$ 165,170	\$ 349,905	(18,703,402)	280,760	(18,422,642)
General Revenues and Transfers:							
Property taxes					14,858,411	-	14,858,411
Excises					1,243,249	-	1,243,249
Penalties, interest and other taxes					288,637	-	288,637
Grants and contributions not restricted to specific programs					1,389,278	-	1,389,278
Investment income					46,002	1,234	47,236
Miscellaneous					38,757	-	38,757
Transfers, net					140,463	(140,463)	-
Total general revenues and transfers					18,004,797	(139,229)	17,865,568
Change in Net Position					(698,605)	141,531	(557,074)
Net Position:							
Beginning of year, as restated					27,813,441	3,794,772	31,608,213
End of year					\$ 27,114,836	\$ 3,936,303	\$ 31,051,139

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

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets			
Cash and short-term investments	\$ 1,855,122	\$ 1,477,308	\$ 3,332,430
Investments	1,829,682	291,530	2,121,212
Receivables:			
Property taxes	1,249,080	-	1,249,080
Excises	153,110	-	153,110
Departmental and other	-	363,718	363,718
Total Assets	\$ 5,086,994	\$ 2,132,556	\$ 7,219,550
Liabilities			
Warrants payable	\$ 294,507	\$ 91,162	\$ 385,669
Accrued liabilities	108,900	6,419	115,319
Notes payable	-	730,000	730,000
Other liabilities	2,038	25,036	27,074
Total Liabilities	405,445	852,617	1,258,062
Deferred Inflows of Resources	1,325,868	363,718	1,689,586
Fund Balances			
Nonspendable	-	312,030	312,030
Restricted	7,899	1,537,295	1,545,194
Committed	854,303	-	854,303
Assigned	39,592	-	39,592
Unassigned	2,453,887	(933,104)	1,520,783
Total Fund Balances	3,355,681	916,221	4,271,902
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,086,994	\$ 2,132,556	\$ 7,219,550

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

TOWN OF TOWNSEND, MASSACHUSETTS

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

JUNE 30, 2015

Total governmental fund balances	\$ 4,271,902
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	30,063,185
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	1,467,796
<ul style="list-style-type: none"> • Deferred outflows of resources related to pensions resulting from projected versus actual earnings will be recognized as an increase to the net pension liability in the years ending June 30, 2016 through June 30, 2019. 	20,600
<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. 	(11,005)
<ul style="list-style-type: none"> • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: <ul style="list-style-type: none"> Bonds payable Landfill Net pension liability 	(2,194,717) (403,000) <u>(6,099,925)</u>
Net position of governmental activities	\$ <u>27,114,836</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 14,904,355	\$ -	\$ 14,904,355
Excises	1,209,040	-	1,209,040
Penalties, interest and other taxes	288,637	-	288,637
Charges for services	181,879	760,342	942,221
Intergovernmental	1,428,362	475,991	1,904,353
Licenses and permits	177,966	-	177,966
Investment income	24,719	21,283	46,002
Miscellaneous	12,832	25,925	38,757
Total Revenues	<u>18,227,790</u>	<u>1,283,541</u>	<u>19,511,331</u>
Expenditures:			
Current:			
General government	1,228,829	51,246	1,280,075
Public safety	3,075,732	294,205	3,369,937
Education	10,021,440	-	10,021,440
Public works	1,056,319	1,192,043	2,248,362
Sanitation	622,299	-	622,299
Health and human services	242,086	58,561	300,647
Culture and recreation	246,711	88,804	335,515
Employee benefits	1,578,091	-	1,578,091
Debt service	510,399	-	510,399
Intergovernmental	70,362	-	70,362
Total Expenditures	<u>18,652,268</u>	<u>1,684,859</u>	<u>20,337,127</u>
Excess (deficiency) of revenues over expenditures	(424,478)	(401,318)	(825,796)
Other Financing Sources (Uses):			
Transfers in	562,830	50,000	612,830
Transfers out	(78,513)	(393,854)	(472,367)
Total Other Financing Sources (Uses)	<u>484,317</u>	<u>(343,854)</u>	<u>140,463</u>
Change in fund balance	59,839	(745,172)	(685,333)
Fund Balance, at Beginning of Year	<u>3,295,842</u>	<u>1,661,393</u>	<u>4,957,235</u>
Fund Balance, at End of Year	<u>\$ 3,355,681</u>	<u>\$ 916,221</u>	<u>\$ 4,271,902</u>

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

TOWN OF TOWNSEND, 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 change in governmental fund balances	\$ (685,333)				
<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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">760,398</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,246,102)</td> </tr> </table> 		Capital outlay purchases, net of disposals	760,398	Depreciation	(1,246,102)
Capital outlay purchases, net of disposals	760,398				
Depreciation	(1,246,102)				
<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, net of change in allowance for doubtful accounts. (65,756) 					
<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: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of bonds</td> <td style="text-align: right;">419,334</td> </tr> <tr> <td>Repayments of capital leases</td> <td style="text-align: right;">40,530</td> </tr> </table> 		Repayments of bonds	419,334	Repayments of capital leases	40,530
Repayments of bonds	419,334				
Repayments of capital leases	40,530				
<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. 1,940 					
<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. <table border="0" style="margin-left: 40px;"> <tr> <td>Change in landfill liability</td> <td style="text-align: right;">18,500</td> </tr> <tr> <td>Change in net pension liability, net of related deferred outflows</td> <td style="text-align: right;"><u>57,884</u></td> </tr> </table> 		Change in landfill liability	18,500	Change in net pension liability, net of related deferred outflows	<u>57,884</u>
Change in landfill liability	18,500				
Change in net pension liability, net of related deferred outflows	<u>57,884</u>				
Change in net position of governmental activities	\$ <u><u>(698,605)</u></u>				

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

TOWN OF TOWNSEND, 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 Transfers In:				
Taxes	\$ 14,832,484	\$ 14,832,484	\$ 14,832,484	\$ -
Excise	1,100,000	1,100,000	1,209,040	109,040
Penalties, interest and other taxes	111,503	111,503	288,637	177,134
Charges for services	110,020	110,020	181,879	71,859
Intergovernmental	1,420,239	1,420,239	1,428,362	8,123
Licenses and permits	130,000	130,000	177,966	47,966
Investment income	10,000	10,000	5,951	(4,049)
Miscellaneous	13,477	13,477	12,832	(645)
Transfers in	840,123	840,123	840,234	111
Total Revenues and Transfers In	18,567,846	18,567,846	18,977,385	409,539
Expenditures and Transfers Out:				
General government	1,351,783	1,468,024	1,332,801	135,223
Public safety	2,992,912	3,024,312	2,963,587	60,725
Education	10,021,440	10,021,440	10,021,440	-
Public works	803,899	907,860	990,107	(82,247)
Sanitation	648,598	648,598	622,299	26,299
Health and human services	228,058	244,690	242,086	2,604
Culture and recreation	247,105	247,105	246,711	394
Debt service	547,486	518,973	510,399	8,574
Intergovernmental	70,362	70,362	70,362	-
Employee benefits	1,690,203	1,682,969	1,575,724	107,245
Transfers out	-	478,513	478,513	-
Total Expenditures and Transfers Out	18,601,846	19,312,846	19,054,029	258,817
Excess of revenues and transfers in over expenditures and transfers out	(34,000)	(745,000)	(76,644)	668,356
Other Financing Sources/(Uses)				
Use of free cash:				
For stabilization funding	-	400,000	-	(400,000)
For funding of snow and ice deficit	-	175,000	-	(175,000)
For debt service	-	50,000	-	(50,000)
For management information systems	-	35,000	-	(35,000)
For fire relocation	-	20,000	-	(20,000)
Other	-	31,000	-	(31,000)
Use of overlay surplus	34,000	34,000	-	(34,000)
Excess of revenues, transfers in and other sources over expenditures, transfers out and other uses	\$ -	\$ -	\$ (76,644)	\$ (76,644)

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Water Fund</u>
Assets	
Current:	
Cash and short-term investments	\$ 1,507,141
User fees, net of allowance for uncollectibles	<u>313,717</u>
Total current assets	1,820,858
Noncurrent:	
Capital assets, net of accumulated depreciation	2,965,833
Capital assets, not being depreciated	<u>1,009,567</u>
Total noncurrent assets	<u>3,975,400</u>
Deferred Outflows of Resources	<u>2,171</u>
Total Assets and Deferred Outflows of Resources	5,798,429
Liabilities	
Current:	
Accrued liabilities	26,275
Other current liabilities	11,326
Current portion of long-term liabilities:	
Bonds payable	<u>101,681</u>
Total current liabilities	139,282
Noncurrent:	
Bonds payable, net of current portion	1,079,961
Net pension liability	<u>642,883</u>
Total noncurrent liabilities	<u>1,722,844</u>
Total Liabilities	1,862,126
Net Position	
Net investment in capital assets	2,874,958
Unrestricted	<u>1,061,345</u>
Total Net Position	<u>\$ 3,936,303</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Water Fund
Operating Revenues:	
Charges for services	\$ 1,051,579
Other	<u>1,508</u>
Total Operating Revenues	1,053,087
Operating Expenses:	
Personnel services	244,870
Non-personnel services	386,768
Depreciation	<u>114,900</u>
Total Operating Expenses	<u>746,538</u>
Operating Income	306,549
Nonoperating Revenues (Expenses):	
Investment income	1,234
Interest expense	<u>(25,789)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(24,555)</u>
Income Before Transfers	281,994
Transfers:	
Transfers in	28,513
Transfers out	<u>(168,976)</u>
Change in Net Position	141,531
Net Position at Beginning of Year, as restated	<u>3,794,772</u>
Net Position at End of Year	<u><u>\$ 3,936,303</u></u>

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

TOWN OF TOWNSEND, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Water Fund</u>
Cash Flows From Operating Activities:	
Receipts from customers and users	\$ 1,084,020
Payments to vendors and employees	<u>(673,953)</u>
Net Cash Provided By Operating Activities	410,067
Cash Flows From Noncapital Financing Activities:	
Transfers in	28,513
Transfers out	<u>(168,976)</u>
Net Cash Used for Noncapital Financing Activities	(140,463)
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(125,495)
Principal payments on bonds	(105,032)
Interest expense	<u>(25,789)</u>
Net Cash Provided By Capital and Related Financing Activities	(256,316)
Cash Flows From Investing Activities:	
Investment income	<u>1,234</u>
Net Cash Provided By Investing Activities	<u>1,234</u>
Net Change in Cash and Short-Term Investments	14,522
Cash and Short-Term Investments, Beginning of Year	<u>1,492,619</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,507,141</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 306,549
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	114,900
Changes in assets and liabilities:	
User fees	30,933
Warrants payable	(41,228)
Accrued liabilities	(1,649)
Net pension liability, including related deferred outflows	(6,100)
Other liabilities	<u>6,662</u>
Net Cash Provided By Operating Activities	<u><u>\$ 410,067</u></u>

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

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

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and short-term investments	\$ <u>141,202</u>	\$ <u>285,553</u>
Total Assets	141,202	285,553
 Liabilities and Net Position		
Warrants payable	-	21,188
Other liabilities	<u>-</u>	<u>264,365</u>
Total Liabilities	<u>-</u>	<u>285,553</u>
 Net Position		
Total Net Position Restricted for Other Purposes	\$ <u><u>141,202</u></u>	\$ <u><u>-</u></u>

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

TOWN OF TOWNSEND, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 100
Interest income	<u>5,295</u>
Total additions	5,395
Deductions:	
Education	500
Health and human services	<u>4,076</u>
Total deductions	<u>4,576</u>
Net increase	819
Net position:	
Beginning of year	<u>140,383</u>
End of year	<u>\$ 141,202</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

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 government 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 Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 Town reports the following major proprietary funds:

- The *water enterprise fund* is used to report the Town's water enterprise operations.

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

The *agency fund* is custodial in nature and is used to account for funds held for others.

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.

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 \$47,954.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government using the following thresholds:

<u>Assets</u>	<u>Value Amount</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	40
Building improvements	\$ 25,000	20
Infrastructure	\$ 150,000	5 - 40
Machinery and equipment	\$ 25,000	3 - 10
Vehicles	\$ 5,000	5
Library books	\$ 5,000	10
Software	\$ 5,000	3
Land	\$ 25,000	N/A
Land improvements	\$ 5,000	N/A
Works of art and historical treasures	\$ 2,500	N/A

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.

Property, plant, and equipment are depreciated using the straight-line method using the half-year convention over the estimated useful lives noted above.

H. Compensated Absences

The Town does not report a liability for compensated absences. It is the Town's policy that earned but unused vacation time is forfeited by employees at year-end. Earned but unused sick leave balances may be carried from one year to the next; however, these balances are not reimbursable upon resignation or termination of employment.

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 Town (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. Net investments in capital assets consist 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)	\$ 18,227,790	\$ 18,652,268
Other financing sources/uses (GAAP Basis)	<u>562,830</u>	<u>78,513</u>
Subtotal (GAAP Basis)	18,790,620	18,730,781
Adjust tax revenue to accrual basis	(71,871)	-
Reverse beginning-of-year appropriation carryforwards from expenditures	-	(422,134)
Add end-of-year appropriation carryforwards from expenditures	-	345,382
To reverse the effect of non-budgeted Stabilization activity	<u>258,636</u>	<u>400,000</u>
Budgetary Basis	<u>\$ 18,977,385</u>	<u>\$ 19,054,029</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2015:

Special Revenue Funds:	
MEMA Feb 2015 Blizzard Grant	\$ (36,198)
Green Communities Grant	(26,581)
PSAP FY14 Training/Equipment Grant	(20,500)
Police Special Detail Revolving	(18,932)
MEMA Emergency Planning Grant	(6,860)
Elder Affairs LRTA Grant	(4,974)
PSAP FY14 Leadership Grant	(4,401)
SMR Recycle Enforce Coordinator Grant	(764)
Body Armor Matching Federal Grant	(525)
Capital Project Funds:	
Chapter 90	(163,826)
Highway Road Improvement	(100,000) *
Street Sweeper	(185,285) *
Backhoe	(99,865) *
F450 1-ton Truck	(65,000) *
Used 6-wheel Dump Truck	(64,517) *
Fuel Pumps	(28,760) *
Electronic Message Boards	(27,500) *
UTV Skid Trailer	(24,983) *
Computer Upgrades	(21,599) *
Carpet Replacement	(16,159) *
Pylmovent Harbor Stat	(11,160) *
Clam Shell Catch Basin Cleaner	(4,715) *
	<u>\$ (933,104)</u>

* Short-term notes outstanding at June 30, 2015 cover deficit balance.

The deficit balances in these funds will be eliminated through future inter-governmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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

As of June 30, 2015, \$1,150,724 of the Town's bank balance of \$4,982,396 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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>Rating as of Year-end</u>			
		<u>Aaa</u>	<u>A2</u>	<u>Baa1</u>	<u>Not Rated</u>
U.S. Treasury notes	\$ 256,302	\$ 256,302	\$ -	\$ -	\$ -
Certificates of deposits	285,438	-	-	-	285,438
Corporate bonds	357,251	-	208,834	148,417	-
Corporate equities	232,245	-	-	-	232,245
Mutual funds	224,420	-	-	-	224,420
Mortgage-backed securities	765,556	765,556	-	-	-
Total investments	<u>\$ 2,121,212</u>	<u>\$ 1,021,858</u>	<u>\$ 208,834</u>	<u>\$ 148,417</u>	<u>\$ 742,103</u>

B. Custodial Credit Risk

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. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount that may be invested 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:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Synovus Bank	\$ 245,039	9.1%

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 does not have 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 regarding the quality and maturity of the Town’s fixed income securities is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration (in years)</u>	<u>Average Rating</u>
Debt-related Securities:			
U.S. Treasury notes	\$ 256,302	3.34	AAA
Corporate bonds	357,251	4.74	AAA
Mortgage-backed securities	<u>765,556</u>	3.29	A3
Total	<u>\$ 1,379,109</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 does not have policies for foreign currency risk.

5. Tax and Motor Vehicle Excise 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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Tax and motor vehicle excise receivables at June 30, 2015 consist of the following (in thousands):

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate taxes	\$ 387,560	\$ (89,575)	\$ 297,985
Personal property taxes	16,677	(8,673)	8,004
Tax liens	811,222	(81,122)	730,100
Deferred taxes	<u>33,621</u>	<u>(3,362)</u>	<u>30,259</u>
Total property taxes	1,249,080	(182,732)	1,066,348
Motor vehicle excise	<u>153,110</u>	<u>(39,058)</u>	<u>114,052</u>
Grand Total	<u>\$ 1,402,190</u>	<u>\$ (221,790)</u>	<u>\$ 1,180,400</u>

6. User Fee Receivable

Water user charges are based on meter readings that are done by Townsend Water Department at the end of each quarter – March, June, September, and December – and are billed in the months following the meter readings. An overdue notice will be sent to water users whose bill remains outstanding by the end of the month in which the first bill is rendered. A demand charge of \$2.00 per unit will be added to the original bill, plus 1.5% interest. If the bill remains outstanding for 15 days following the overdue notice, the Water Commissioners may order the Superintendent to shut off the water service following Sec IIA, Chapter 165 of the Massachusetts General Laws. The water service will remain shut off until such time that the total outstanding bill is paid, plus an additional turn-on fee of \$35.00.

All outstanding balances of accumulated water charges plus demands and interest with no payments for than three billing periods constitute a lien on the property, and may be turned over to the tax collector for collection.

Water service connection fees are charged for each new service tapped into the main. The charge covers the costs of digging, tapping the main, laying the standard water lines, and installation of a standard water meter. If larger services or meters are required, additional charges will be rendered.

Receivables for water user charges, water liens, and other water fees at June 30, 2015 consist of the following (in thousands):

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Water user charges	\$ 338,597	\$ (33,860)	\$ 304,737
Water liens	4,827	(1,448)	3,379
Water - other	<u>11,203</u>	<u>(5,602)</u>	<u>5,601</u>
Total	<u>\$ 354,627</u>	<u>\$ (40,910)</u>	<u>\$ 313,717</u>

7. Transfers In/Out

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 562,830	\$ 78,513
Nonmajor Governmental Funds:		
Title V betterments	-	27,734
Ambulance receipts reserved	-	304,792
Cemetery - sale of lots	-	7,950
WTRR receipts reserved	-	2,900
Cable access	-	30,000
Grants	-	20,478
Capital project funds	50,000	-
Enterprise Funds:		
Water	<u>28,513</u>	<u>168,976</u>
Total	<u>\$ 641,343</u>	<u>\$ 641,343</u>

The transfer from the ambulance receipts reserved account to the general fund was made to supplement funding for operating costs of Emergency Medical Services. The transfer from the water fund to the general fund was made to cover indirect costs of the water fund incurred in the general fund. The Town's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

8. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 22,804	\$ 64	\$ -	\$ 22,868
Capital improvements (other than buildings)	666	-	-	666
Machinery, equipment, and furnishings	4,758	615	-	5,373
Vehicles	1,088	183	-	1,271
Library books	520	-	-	520
Infrastructure	10,774	197	-	10,971
Total capital assets, being depreciated	40,610	1,059	-	41,669
Less accumulated depreciation for:				
Buildings and improvements	(4,407)	(588)	-	(4,995)
Capital improvements (other than buildings)	(303)	(25)	-	(328)
Machinery, equipment, and furnishings	(3,708)	(317)	-	(4,025)
Vehicles	(990)	(74)	-	(1,064)
Library books	(378)	(27)	-	(405)
Infrastructure	(4,082)	(215)	-	(4,297)
Total accumulated depreciation	(13,868)	(1,246)	-	(15,114)
Total capital assets, being depreciated, net	26,742	(187)	-	26,555
Capital assets, not being depreciated:				
Land	3,454	-	-	3,454
Art and historical treasures	55	-	-	55
Construction in progress	299	-	(299)	-
Total capital assets, not being depreciated	3,808	-	(299)	3,509
Governmental activities capital assets, net	\$ 30,550	\$ (187)	\$ (299)	\$ 30,064
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,693	\$ -	\$ -	\$ 1,693
Capital improvements (other than buildings)	694	-	-	694
Machinery, equipment, and furnishings	455	-	-	455
Infrastructure	2,130	-	-	2,130
Total capital assets, being depreciated	4,972	-	-	4,972
Less accumulated depreciation for:				
Buildings and improvements	(387)	(40)	-	(427)
Capital improvements (other than buildings)	(323)	(14)	-	(337)
Machinery, equipment, and furnishings	(391)	(19)	-	(410)
Infrastructure	(790)	(42)	-	(832)
Total accumulated depreciation	(1,891)	(115)	-	(2,006)
Total capital assets, being depreciated, net	3,081	(115)	-	2,966
Capital assets, not being depreciated:				
Land	662	-	-	662
Construction in progress	222	125	-	347
Total capital assets, not being depreciated	884	125	-	1,009
Business-type activities capital assets, net	\$ 3,965	\$ 10	\$ -	\$ 3,975

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 520,072
Public safety	340,150
Public works	354,148
Culture and recreation	<u>31,732</u>
Total depreciation expense - governmental activities	<u>\$ 1,246,102</u>
Business-Type Activities:	
Water	<u>\$ 114,900</u>
Total depreciation expense - business-type activities	<u>\$ 114,900</u>

9. Deferred Outflows of Resources

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

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Proprietary Funds Water</u>
Net difference between projected and actual pension investment earnings	\$ 20,600	\$ 2,171	\$ 2,171

10. Warrants Payable

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

11. Notes Payable

The Town had the following notes outstanding at June 30, 2015:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance at 6/30/15</u>
<u>Governmental Activities:</u>							
Road repairs	0.55%	06/06/14	12/12/15	\$ 150,000	\$ 100,000	\$ (150,000)	\$ 100,000
Capital Improvements	0.50%	06/12/15	12/11/15	-	630,000	-	630,000
Total				<u>\$ 150,000</u>	<u>\$ 730,000</u>	<u>\$ (150,000)</u>	<u>\$ 730,000</u>

12. 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>	Serial Maturities <u>Through</u>	Interest <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/15</u>
Title V	08/01/19	5.375-5.50%	\$ 53,915
Public buildings	06/15/22	4.25-5.00%	310,000
Land acquisition I	06/15/22	4.50-5.00%	175,000
Land acquisition II	06/15/19	4.50-5.00%	35,000
Landfill closure I	06/15/24	4.25-5.00%	585,000
Landfill closure II (72%)	06/15/24	4.25-5.00%	208,800
Title V	08/01/22	5.00-5.25%	58,178
Title V	07/15/27	0.00%	123,824
Memorial Hall - refunding	07/15/27	2.00-3.00%	295,000
Land acquisition - refunding	07/15/27	2.00-3.00%	30,000
Fire truck	07/15/27	2.00-3.00%	<u>320,000</u>
Total Governmental Activities:			<u>\$ 2,194,717</u>

<u>Business-Type Activities:</u>	Serial Maturities <u>Through</u>	Interest <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/15</u>
Water pumping station	07/15/25	2.00%	\$ 418,414
Water improvements - East Side	07/15/26	2.00%	657,028
Witch's Brook water company (Landfill closure II - 28%)	06/15/24	4.25-5.00%	81,200
Water - refunding	12/17/17	2.00-3.00%	<u>25,000</u>
Total Business-Type Activities:			<u>\$ 1,181,642</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	\$ 419,138	\$ 82,150	\$ 501,288
2017	409,138	67,231	476,369
2018	399,138	52,023	451,161
2019	189,138	40,470	229,608
2020	187,738	32,228	219,966
2021 - 2025	561,853	53,851	615,704
2026 - 2030	<u>28,574</u>	<u>-</u>	<u>28,574</u>
Total	\$ <u>2,194,717</u>	\$ <u>327,953</u>	\$ <u>2,522,670</u>

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2015:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 101,681	\$ 25,056	\$ 126,737
2017	103,364	22,698	126,062
2018	100,080	20,355	120,435
2019	96,831	18,151	114,982
2020	100,017	13,740	113,757
2021 - 2025	516,974	40,610	557,584
2026 - 2029	<u>162,695</u>	<u>2,847</u>	<u>165,542</u>
Total	\$ <u>1,181,642</u>	\$ <u>143,457</u>	\$ <u>1,325,099</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	\$ 2,614	\$ -	\$ (419)	\$ 2,195	\$ (419)	\$ 1,776
Other:						
Landfill closure	421	-	(18)	403	(19)	384
Capital leases	40	-	(40)	-	-	-
Net pension liability	<u>6,137</u>	<u>21</u>	<u>(58)</u>	<u>6,100</u>	<u>-</u>	<u>6,100</u>
Totals	\$ <u>9,212</u>	\$ <u>21</u>	\$ <u>(535)</u>	\$ <u>8,698</u>	\$ <u>(438)</u>	\$ <u>8,260</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,287	\$ -	\$ (105)	\$ 1,182	\$ (102)	\$ 1,080
Net pension liability	<u>647</u>	<u>2</u>	<u>(6)</u>	<u>643</u>	<u>-</u>	<u>643</u>
Totals	\$ <u>1,934</u>	\$ <u>2</u>	\$ <u>(111)</u>	\$ <u>1,825</u>	\$ <u>(102)</u>	\$ <u>1,723</u>

13. 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. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date.

The \$403,000 reported as landfill closure and postclosure care liability at June 30, 2015 represents that cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill.

14. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2015:

	Fund Basis	
	Governmental Funds	
	General Fund	Nonmajor Funds
Unavailable property taxes	\$ 1,172,758	\$ -
Unavailable excise	153,110	-
Unavailable betterments	-	176,726
Unavailable ambulance revenue	-	186,992
Total	<u>\$ 1,325,868</u>	<u>\$ 363,718</u>

15. Restricted Net Position

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

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

16. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 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 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 various special revenue funds, capital project funds, and the income portion of permanent 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 capital related stabilization accounts.

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. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

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	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 312,030	\$ 312,030
Total Nonspendable	-	312,030	312,030
Restricted			
For debt service	7,899	-	7,899
Capital projects	-	93,489	93,489
Ambulance revolving fund	-	521,835	521,835
Septic Title V revolving fund	-	222,850	222,850
Cablevision Access revolving fund	-	183,576	183,576
Meeting Hall Complex revolving fund	-	64,656	64,656
Other special revenue funds	-	347,681	347,681
Expendable permanent funds	-	103,207	103,207
Total Restricted	7,899	1,537,294	1,545,193
Committed			
Capital stabilization accounts	544,514	-	544,514
For continuing appropriations:			
General government	227,306	-	227,306
Public safety	38,835	-	38,835
Public works	34,288	-	34,288
Employee benefits	9,360	-	9,360
Total Committed	854,303	-	854,303
Assigned			
Encumbered for:			
General government	30,707	-	30,707
Public safety	2,385	-	2,385
Employee benefits	2,500	-	2,500
For next year's expenditures	4,000	-	4,000
Total Assigned	39,592	-	39,592
Unassigned - operating fund	1,168,719	-	1,168,719
Unassigned - general stabilization	1,285,168	-	1,285,168
Unassigned - deficit balances	-	(933,103)	(933,103)
Total Unassigned	2,453,887	(933,103)	1,520,784
Total Fund Balance	\$ 3,355,681	\$ 916,221	\$ 4,271,902

17. Subsequent Events

Short-term Debt:

Subsequent to June 30, 2015, the Town has incurred the following additional bond anticipation notes:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Renewal Amount</u>	<u>New Issue Amount</u>	<u>Total</u>
<u>Governmental Activities</u>						
Roadway Improvements	0.75%	12/11/15	12/09/16	\$ 100,000	\$ -	\$ 100,000
Capital Improvements	0.75%	12/11/15	12/09/16	630,000	-	630,000
Building Purchase & Removal	0.75%	12/11/15	12/09/16	-	159,000	159,000
Total				<u>\$ 730,000</u>	<u>\$ 159,000</u>	<u>\$ 889,000</u>

18. Commitments and Contingencies

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

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

19. Post-Employment Healthcare and Life Insurance Benefits

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 June 30, 2014, the actuarial valuation date, approximately 1 retiree and 50 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 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 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 June 30, 2014.

Annual Required Contribution (ARC)	\$ 39,680
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	39,680
Contributions made	<u>(39,680)</u>
	<hr/>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
	<hr/>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 39,680	100%	\$ -
2014	\$ 37,090	100%	\$ -
2013	\$ 12,540	100%	\$ -
2012	\$ 12,540	100%	\$ -
2011	\$ 11,400	100%	\$ -
2010	\$ 11,400	100%	\$ -

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 June 30, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 275,210
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 275,210</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 4,123,366</u>
UAAL as a percentage of covered payroll	<u>6.67%</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 techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual health-care cost trend rate of 8.5%, which decreases to a 4.5% 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 4%.

20. Middlesex County 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 are members of the Middlesex County 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 25 Linnell Circle, Billerica, Massachusetts 01821.

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 \$673,724, 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 \$6,742,808 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 or as of that date. 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 0.561285%.

For the year ended June 30, 2015, the Town recognized pension expense of \$609,740. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 22,771

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

Year ended June 30:	
2016	\$ 5,693
2017	5,693
2018	5,693
2019	<u>5,692</u>
Total	<u>\$ 22,771</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:

Valuation date	January 1, 2014, rolled forward to December 31, 2014
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.00% per year
Post-retirement cost-of-living adjustment	3.00% on the first \$16,000

Mortality rates were based on the RP-2000 Employee Mortality Table projected 22 years with Scale AA for pre-retirement, the RP-2000 Employee Mortality Table projected 17 years with Scale AA for post-retirement, and the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA for disabled retirees.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2013 to 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 expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Long-term Expected Asset Allocation</u>
Domestic equity	6.60%	19.60%
International developed markets equity	7.10%	15.60%
International emerging markets equity	9.40%	6.50%
Core fixed income	2.20%	15.30%
High-yield fixed income	4.70%	8.30%
Real estate	4.40%	9.90%
Commodities	4.40%	3.90%
Short-term government money market	1.80%	0.00%
Hedge fund, GTAA, Risk parity	3.90%	9.80%
Private equity	11.70%	11.10%

Discount Rate: The discount rate used to measure the total pension liability was 7.875%. 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 7.875%, 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 (6.875%) or 1 percentage-point higher (8.875%) than the current rate:

Fiscal Year Ended	1% Decrease (6.875%)	Current Discount Rate (7.875%)	1% Increase (8.875%)
December 31, 2014	\$ 7,929,090	\$ 6,742,808	\$ 5,389,263

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

21. 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 government 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.

22. Beginning Net Position Restatement

The Town's beginning net position for fiscal year 2015 has been restated from the previous fiscal year to conform to GASB Statement 68. Fiscal year 2014 and prior periods have not been restated due to impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement does not recognize beginning balances for other deferred outflows of resources

and deferred inflows of resources related to pensions per GASB 71. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
As previously reported	\$ 33,950,650	\$ 4,441,584
GASB 68 implementation for net pension liability	<u>(6,137,209)</u>	<u>(646,812)</u>
As restated	<u>\$ 27,813,441</u>	<u>\$ 3,794,772</u>

Fund Basis Financial Statements:

	<u>Water Fund</u>
As previously reported	\$ 4,441,584
GASB 68 implementation for net pension liability	<u>(646,812)</u>
As restated	<u>\$ 3,794,772</u>

**TOWN OF TOWNSEND, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2015
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/14	\$ -	\$ 275,210	\$ 275,210	0.0%	\$ 4,123,366	6.7%
06/30/11	\$ -	\$ 176,000	\$ 176,000	0.0%	N/A	N/A

See Independent Auditors' Report.

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

<u>Middlesex County Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.56%
Proportionate share of the net pension liability for the most recent measurement date	\$ 6,742,808
Covered-employee payroll for the most recent measurement date	\$ 2,883,402
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	233.85%
Plan fiduciary net position as a percentage of the total pension liability	47.65%

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

See Independent Auditors' Report.

TOWN OF TOWNSEND, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Middlesex County Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 673,724
Contributions in relation to the contractually required contribution	<u>(673,724)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 2,883,402
Contributions as a percentage of covered-employee payroll	23.37%

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

See Independent Auditors' Report.