

TOWN OF TEWKSBURY, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2016

TOWN OF TEWKSBURY, MASSACHUSETTS

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JUNE 30, 2016

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Tewksbury, Massachusetts

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 Tewksbury, Massachusetts as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Tewksbury, Massachusetts basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Tewksbury, Massachusetts, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 the management's discussion and analysis and budgetary comparison information on pages, as listed in the table of contents, 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of the Town of Tewksbury, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Tewksbury, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Powers & Sullivan LLC".

October 21, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Tewksbury (Town), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$57.9 million (net position).
- As required by GASB Statement #68, in 2016 the Town recognized their total net pension liability of \$85.3 million along with a deferred outflow related to pension of \$4.4 million and deferred inflow related to pension of \$1.3 million on the statement of net position.
- The government's total net position increased by \$3.8 million.
- As of the close of the current year, the Town's governmental funds reported a combined ending fund balance of \$23.6 million, an increase of \$839,000 in comparison with the prior year.
- The Town contributed \$350,000 to its other postemployment benefits (OPEB) trust fund, which had a balance of \$1.1 million at the end of the current year.
- At the end of the current year, unassigned fund balance for the general fund was \$9.3 million, or 9.4% percent of total government expenditures.
- The Town refunded \$1.2 million of governmental bonds and \$7.7 million of water and sewer enterprise fund bonds. The transaction resulted in a reduction of \$1.5 million in future debt service payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Tewksbury's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances in a manner similar to private sector business.

The *statement of net position* presents information on all assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them 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 government's net position changed during the most recent 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 the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (i.e. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are primarily 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, human services, health and sanitation, culture and recreation, and interest.

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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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*.

The Town of Tewksbury adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town of Tewksbury maintains two types of proprietary funds:

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses internal service funds to account for health insurance activities and workers compensation benefits. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements.

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

The other postemployment benefits fund is used to account for assets accumulated to provide funding for future other postemployment benefits (OPEB) liabilities. Private-purpose trust funds and agency funds are reported and combined in a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier net position may serve, over time, as a useful indicator of a government's financial position. The assets and deferred outflows of resources exceeded liabilities by \$57.9 million at the close of 2016.

Governmental Activities - The key elements of the governmental-type activities are as follows:

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets.....	\$ 46,642,324	\$ 45,023,495
Capital assets.....	127,948,661	124,287,636
Total assets.....	174,590,985	169,311,131
Deferred outflows of resources.....	3,975,544	250,304
Liabilities:		
Current liabilities (excluding debt).....	9,350,776	9,939,814
Noncurrent liabilities (excluding debt).....	137,639,283	128,473,812
Current debt.....	3,166,371	3,150,141
Noncurrent debt.....	33,293,538	36,345,929
Total liabilities.....	183,449,968	177,909,696
Deferred inflows of resources.....	1,185,383	-
Net Position:		
Net investment in capital assets.....	94,888,774	89,899,657
Restricted.....	2,352,226	1,102,514
Unrestricted.....	(103,309,822)	(99,350,432)
Total net position.....	\$ (6,068,822)	\$ (8,348,261)
	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services.....	\$ 8,770,255	\$ 7,838,640
Operating grants and contributions.....	23,556,214	20,549,771
Capital grants and contributions.....	1,056,974	599,082
General revenues:		
Real estate and personal property taxes.....	74,274,209	70,779,197
Motor vehicle and other excise taxes.....	4,683,874	4,299,314
Nonrestricted grants.....	2,858,854	2,773,844
Unrestricted investment income.....	409,540	218,881
Other revenues.....	2,546,224	2,551,532
Total revenues.....	\$ 118,156,144	\$ 109,610,261
Expenses:		
General government.....	\$ 4,885,074	\$ 4,741,032
Public safety.....	19,815,794	18,601,249
Education.....	76,449,490	74,627,031
Public works.....	3,313,598	4,404,370
Human services.....	1,004,622	896,939
Health and sanitation.....	2,514,061	2,441,257
Culture and recreation.....	2,200,668	2,070,004
Interest.....	1,255,482	1,450,931
Total expenses.....	111,438,789	109,232,813
Excess before transfers.....	6,717,355	377,448
Transfers.....	(4,437,916)	(4,116,918)
Change in net position.....	2,279,439	(3,739,470)
Net position beginning of the year.....	(8,348,261)	(4,608,791)
Net position end of the year.....	\$ (6,068,822)	\$ (8,348,261)

For the Town's governmental activities, liabilities exceeded assets and deferred outflows of resources by \$6.1 million at the close of 2016.

A significant portion of the Town's net position, \$94.9 million, reflects its net investment in capital assets (i.e. land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens: consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$2.4 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position resulted in a \$103.3 million deficit, due mainly to the cumulative effect of recording \$50.5 million of other postemployment benefit liabilities through June 30, 2016 along with the recognition of the net pension liability of \$77.9 million.

Revenues and Expenses

The governmental activities net position increased by \$2.3 million during the current year. This was mainly due to revenue increases in developer deposits, supplemental taxes, tax title, cable franchise fees and miscellaneous revenue, which included FEMA and Medicaid reimbursements, insurance receipts and a prior year payment for cell tower rental.

Governmental expenses totaled \$111.4 million of which \$33.3 million (30%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$84.8 million, primarily from property taxes, motor vehicle and other excise, and hotel/motel tax.

Charges for services represent about 7% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by Town Meeting, the Board of Selectmen, Town boards and commissions, and the Town Manager are included in this category.

Operating grants and contributions account for 20% of the governmental activities resources. Most of these resources apply to education operations. These resources offset costs within the school department in addition to their general fund operating budget.

Capital grants and contributions account for 1% of the governmental activities resources. The Town receives state reimbursement for highway projects.

Property taxes are the most significant revenue source for the Town's governmental activities. They comprise 63% of all resources.

Motor vehicle and other taxes comprise 4% of the governmental activity's resources.

Education is by far the largest governmental activity of the Town. A total of \$76.4 million was expended for education, of which \$23.6 million was funded by program revenues. The remaining \$52.8 million was funded by taxes and other revenue.

Public safety is the second largest activity of the Town. \$17.4 million of general revenues were needed to cover 2016 operating expenses.

Business-type activities - The key elements of the business-type activities are as follows:

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets.....	\$ 32,424,786	\$ 18,380,929
Capital assets.....	142,165,415	147,197,877
Total assets.....	174,590,201	165,578,806
Deferred outflows of resources.....	379,298	23,457
Liabilities:		
Current liabilities (excluding debt).....	1,924,704	1,889,301
Noncurrent liabilities (excluding debt).....	8,647,666	8,057,381
Current debt.....	6,961,961	6,043,101
Noncurrent debt.....	93,393,361	87,218,766
Total liabilities.....	110,927,692	103,208,549
Deferred inflows of resources.....	113,095	-
Net Position:		
Net investment in capital assets.....	42,398,297	54,721,517
Unrestricted.....	21,530,415	7,672,197
Total net position.....	\$ 63,928,712	\$ 62,393,714
	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services.....	\$ 16,306,178	\$ 13,698,086
Nonoperating grants and contributions.....	106,623	114,227
General revenues:		
Unrestricted investment income.....	353	167
Total revenues.....	16,413,154	13,812,480
Expenses.....	19,316,072	14,877,066
Excess before transfers.....	(2,902,918)	(1,064,586)
Transfers.....	4,437,916	4,116,918
Change in net position.....	1,534,998	3,052,332
Net position beginning of the year.....	62,568,670	59,516,338
Net position end of the year.....	\$ 64,103,668	\$ 62,568,670

For the Town's business type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$64.1 million at the close of 2016.

Business type net position of \$42.4 million (66%) represents investments in capital assets, net of any related debt. The remaining \$21.5 million (34%) is available to be used for the ongoing operation of the Town's sewer and water enterprises.

Business-type activities net position increased by \$1.5 million during the current year. The primary reason for the increase was an increase in water and sewer usage, the fact that the rates are designed to support principal payments on long-term debt along with a subsidy by the tax rate.

Financial Analysis of the Governmental Funds

As noted earlier, the Town uses fund accounting 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 year.

At the end of the current year, the Town's governmental funds reported combined ending fund balances totaling \$23.6 million. Of this amount \$12.1 million is for the general fund and \$11.4 million is comprised of nonmajor funds. Cumulatively there was an increase of \$839,000 in fund balances from the prior year.

The general fund is the chief operating fund of the Town. At the end of the current year, unassigned fund balance of the general fund was \$9.3 million while total fund balance was \$12.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 9.4% of the total general fund budgetary expenditures, while total fund balance represents 12.2% of that same amount.

Financial Summary

- Tax revenue continues to be the most significant revenue source for the Town, representing 69.9% of total general fund revenue. Tax revenue increased in accordance with the provisions of the Massachusetts law, which limits such increase to 2½% over the preceding year plus an allowance for new growth and excluded debt.
- Intergovernmental revenue represents 19.4% of total general fund revenues. This includes state aid as well as \$3.6 million in payments made by the State to the Massachusetts Teachers' Retirement Association for teachers' pension benefits.
- Motor vehicle revenue represents 4.4% of the total general fund revenues, an increase of 7.5% from the prior year.
- Charges for services revenue totaled approximately \$1.2 million, a 5.5% decrease from 2015 from the prior year.
- Expenditures in education, public safety, public works, and employee benefits increased approximately \$1.3 million in FY2016.
- Education continues to be the largest category of general fund expenditures, representing 60.8% in 2016. The Town is committed to providing a high-quality education through its public schools.
- Public safety and public works represent a combined 15.6% of general fund expenditures. This reflects the Town's commitment to providing a safe, secure environment and essential public services.

- Debt service costs in 2016 equaled 4.0% of total general fund expenditures, reflecting the Town's ongoing commitment to its school building program, public safety facilities and recreation and cultural facilities.
- Employee benefits and pension costs decreased 6.9% from the prior year.

General Fund Budgetary Highlights

There was a \$5.3 million increase from the original budget to the final amended budget. During the fall and spring Special Town Meeting, appropriation increases for stabilization, OPEB, and various School and Town functions were approved.

General Fund revenues came in approximately \$4.3 million more than budgeted. There were several factors that contributed to this increase. Real estate and personal property was \$1 million better than expected; motor vehicle and other excise receipts were higher by \$656,000 due to an improving economy and an increase in new car sales; licenses and permits were higher by \$474,000 due to more building permits being issued; and hotel/motel tax exceeded expectations by \$344,000.

General fund expenditures, including encumbrances, came in \$847,000 less than budgeted.

Capital Asset and Debt Administration

In conjunction with the annual operating budget the Town of Tewksbury annually prepares a capital budget for the upcoming year and a five year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Capital assets. The Town of Tewksbury's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$270.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer system improvements, machinery and equipment, library and school books, computer equipment, park facilities, roads, highways, and bridges. The Town's investment in capital assets decreased \$1.3 million in 2016. Shown below is the breakdown of the Town's capital assets.

Capital Asset	Governmental Activities	Business Type Activities	Total
Land.....	\$ 1,845,881	\$ 204,000	\$ 2,049,881
Construction in progress.....	7,886,794	818,870	8,705,664
Artwork.....	903,300	-	903,300
Land improvements.....	1,475,254	-	1,475,254
Buildings.....	94,669,504	8,188,407	102,857,911
Buildings improvements.....	2,409,793	1,582,944	3,992,737
Machinery and equipment.....	4,551,122	1,161,094	5,712,216
Library and school books.....	38,322	-	38,322
Computer Software.....	110,020	-	110,020
Infrastructure.....	14,058,671	130,210,100	144,268,771
Total.....	\$ 127,948,661	\$ 142,165,415	\$ 270,114,076

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

- The Town capitalized \$4.1 million in construction in progress, of which, \$2.6 million related to the renovation of Town Hall.
- The Town capitalized a \$2 million in machinery and equipment, of which, \$969,000 related to a fire engines, \$297,000 related to police vehicles and \$226,000 related to various public works vehicles and equipment.
- Continuing infrastructure improvements in the enterprise funds with \$163,000 expended in the current year. Additionally, another \$239,000 was spent on machinery and equipment.

Debt Administration

The Town maintains an “AA+” bond rating from Standard & Poor’s. The Town continues to maintain strong market access for both note and bond sales. At the end of the year the Town had total bonded debt outstanding of \$134.3 million of which \$35.4 million is related to governmental activities, \$75.8 million is for sewer projects, and \$23.2 million is related to water projects. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town.

The Town’s long-term debt increased by \$3.3 million in the current year. During 2016, the Town issued \$20.8 million in long-term debt. The Town also issued \$229,000 in Bond Anticipation Notes related to school construction.

Please refer to notes 4, 6 and 7 for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Tewksbury’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 the Finance Director, Town Hall Annex, 11 Town Hall Avenue, Tewksbury, MA 01876.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 21,395,828	\$ 21,396,116	\$ 42,791,944
Investments.....	15,022,005	5,236,712	20,258,717
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	714,261	-	714,261
Tax liens.....	2,715,415	-	2,715,415
Motor vehicle and other excise taxes.....	402,075	-	402,075
Water fees.....	-	3,070,237	3,070,237
Sewer fees.....	-	2,721,721	2,721,721
Departmental and other.....	803,129	-	803,129
Intergovernmental.....	3,016,511	-	3,016,511
Working capital deposit.....	2,573,100	-	2,573,100
Total current assets.....	<u>46,642,324</u>	<u>32,424,786</u>	<u>79,067,110</u>
NONCURRENT:			
Capital assets, nondepreciable.....	10,635,975	1,022,870	11,658,845
Capital assets, net of accumulated depreciation.....	117,312,686	141,142,545	258,455,231
Total noncurrent assets.....	<u>127,948,661</u>	<u>142,165,415</u>	<u>270,114,076</u>
TOTAL ASSETS.....	<u>174,590,985</u>	<u>174,590,201</u>	<u>349,181,186</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions.....	3,975,544	379,298	4,354,842
LIABILITIES			
CURRENT:			
Warrants payable.....	2,095,216	141,337	2,236,553
Accrued payroll.....	3,156,397	19,139	3,175,536
Health claims payable.....	1,499,350	-	1,499,350
Tax refunds payable.....	379,059	-	379,059
Accrued interest.....	340,257	1,681,228	2,021,485
Other liabilities.....	616,952	20,000	636,952
Landfill closure.....	347,345	-	347,345
Compensated absences.....	916,200	63,000	979,200
Notes payable.....	228,980	-	228,980
Bonds payable.....	2,937,391	6,961,961	9,899,352
Total current liabilities.....	<u>12,517,147</u>	<u>8,886,665</u>	<u>21,403,812</u>
NONCURRENT:			
Landfill closure.....	7,988,935	-	7,988,935
Compensated absences.....	1,236,800	173,000	1,409,800
Other postemployment benefits obligation.....	50,541,856	1,045,110	51,586,966
Net pension liability.....	77,871,692	7,429,556	85,301,248
Bonds payable.....	33,293,538	93,393,361	126,686,899
Total noncurrent liabilities.....	<u>170,932,821</u>	<u>102,041,027</u>	<u>272,973,848</u>
TOTAL LIABILITIES.....	<u>183,449,968</u>	<u>110,927,692</u>	<u>294,377,660</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions.....	1,185,383	113,095	1,298,478
NET POSITION			
Net investment in capital assets.....	94,888,774	42,398,297	137,287,071
Restricted for:			
Permanent funds:			
Expendable.....	51,679	-	51,679
Gifts and grants.....	2,300,547	-	2,300,547
Unrestricted.....	(103,309,822)	21,530,415	(81,779,407)
TOTAL NET POSITION.....	<u>\$ (6,068,822)</u>	<u>\$ 63,928,712</u>	<u>\$ 57,859,890</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 4,885,074	\$ 3,141,848	\$ 2,107,124	\$ -	\$ 363,898
Public safety.....	19,815,794	2,022,473	382,589	-	(17,410,732)
Education.....	76,449,490	3,235,908	20,451,206	-	(52,762,376)
Public works.....	3,313,598	129,825	233,417	1,056,974	(1,893,382)
Human services.....	1,004,622	136,791	350,128	-	(517,703)
Health and sanitation.....	2,514,061	3,523	-	-	(2,510,538)
Culture and recreation.....	2,200,668	99,887	31,750	-	(2,069,031)
Interest.....	1,255,482	-	-	-	(1,255,482)
Total Governmental Activities.....	<u>111,438,789</u>	<u>8,770,255</u>	<u>23,556,214</u>	<u>1,056,974</u>	(78,055,346)
<i>Business-Type Activities:</i>					
Sewer.....	9,053,636	7,802,274	106,623	-	(1,144,739)
Water.....	10,262,436	8,503,904	-	-	(1,758,532)
Total Business-Type Activities.....	<u>19,316,072</u>	<u>16,306,178</u>	<u>106,623</u>	<u>-</u>	(2,903,271)
Total Primary Government.....	<u>\$ 130,754,861</u>	<u>\$ 25,076,433</u>	<u>\$ 23,662,837</u>	<u>\$ 1,056,974</u>	<u>\$ (80,958,617)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (78,055,346)	\$ (2,903,271)	\$ (80,958,617)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	74,274,209	-	74,274,209
Tax liens.....	218,468	-	218,468
Motor vehicle and other excise taxes.....	4,683,874	-	4,683,874
Hotel/motel tax.....	1,099,717	-	1,099,717
Meals tax.....	581,319	-	581,319
Penalties and interest on taxes.....	423,983	-	423,983
Payments in lieu of taxes.....	38,187	-	38,187
Grants and contributions not restricted to specific programs.....	2,858,854	-	2,858,854
Unrestricted investment income.....	409,540	353	409,893
Miscellaneous.....	184,550	-	184,550
<i>Transfers, net</i>	<u>(4,437,916)</u>	<u>4,437,916</u>	<u>-</u>
Total general revenues and transfers.....	<u>80,334,785</u>	<u>4,438,269</u>	<u>84,773,054</u>
Change in net position.....	2,279,439	1,534,998	3,814,437
<i>Net Position:</i>			
Beginning of year.....	<u>(8,348,261)</u>	<u>62,393,714</u>	<u>54,045,453</u>
End of year.....	\$ <u><u>(6,068,822)</u></u>	\$ <u><u>63,928,712</u></u>	\$ <u><u>57,859,890</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 9,023,413	\$ 8,998,985	\$ 18,022,398
Investments.....	7,915,926	3,779,380	11,695,306
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	714,261	-	714,261
Tax liens.....	2,709,132	6,283	2,715,415
Motor vehicle and other excise taxes.....	402,075	-	402,075
Departmental and other.....	764,443	9,753	774,196
Intergovernmental.....	-	3,016,511	3,016,511
TOTAL ASSETS.....	\$ 21,529,250	\$ 15,810,912	\$ 37,340,162
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 974,759	\$ 1,112,801	\$ 2,087,560
Accrued payroll.....	2,991,824	164,573	3,156,397
Tax refunds payable.....	379,059	-	379,059
Other liabilities.....	616,952	-	616,952
Notes payable.....	-	228,980	228,980
TOTAL LIABILITIES.....	4,962,594	1,506,354	6,468,948
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue.....	4,453,200	2,866,503	7,319,703
FUND BALANCES:			
Restricted.....	-	11,605,046	11,605,046
Committed.....	1,909,908	-	1,909,908
Assigned.....	865,778	-	865,778
Unassigned.....	9,337,770	(166,991)	9,170,779
TOTAL FUND BALANCES.....	12,113,456	11,438,055	23,551,511
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 21,529,250	\$ 15,810,912	\$ 37,340,162

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total governmental fund balances.....	\$	23,551,511
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		127,948,661
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds.....		7,319,703
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		2,790,161
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities:		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		7,795,156
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(340,257)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(35,393,065)	
Unamortized premium on bonds payable.....	(837,864)	
Landfill liability.....	(8,336,280)	
Compensated absences.....	(2,153,000)	
Net pension liability.....	(77,871,692)	
Other postemployment benefits obligation.....	(50,541,856)	
Net effect of reporting long-term liabilities.....		<u>(175,133,757)</u>
Net position of governmental activities.....	\$	<u><u>(6,068,822)</u></u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 74,406,635	\$ -	\$ 74,406,635
Tax liens.....	207,165	-	207,165
Motor vehicle and other excise taxes.....	4,636,617	-	4,636,617
Hotel/motel tax.....	1,099,717	-	1,099,717
Meals tax.....	581,319	-	581,319
Charges for services.....	1,202,681	801,650	2,004,331
Penalties and interest on taxes.....	423,983	-	423,983
Fees.....	890,376	1,694,384	2,584,760
Rentals.....	422,018	174,908	596,926
Payments in lieu of taxes.....	38,187	-	38,187
Licenses and permits.....	1,154,170	-	1,154,170
Fines and forfeitures.....	123,454	-	123,454
Intergovernmental.....	20,660,513	6,250,802	26,911,315
Departmental and other.....	478,449	2,613,758	3,092,207
Contributions.....	-	5,500	5,500
Investment income.....	163,914	200,954	364,868
TOTAL REVENUES.....	106,489,198	11,741,956	118,231,154
EXPENDITURES:			
Current:			
General government.....	2,759,204	5,105,324	7,864,528
Public safety.....	13,154,789	516,546	13,671,335
Education.....	60,603,499	5,701,824	66,305,323
Public works.....	2,347,443	928,910	3,276,353
Human services.....	725,665	137,650	863,315
Health and sanitation.....	2,646,288	-	2,646,288
Culture and recreation.....	1,149,282	517,800	1,667,082
Pension benefits.....	5,090,565	-	5,090,565
Employee benefits.....	5,587,500	-	5,587,500
State and county charges.....	1,558,387	-	1,558,387
Debt service:			
Principal.....	2,664,600	230,000	2,894,600
Interest.....	1,297,519	177,100	1,474,619
TOTAL EXPENDITURES.....	99,584,741	13,315,154	112,899,895
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	6,904,457	(1,573,198)	5,331,259
OTHER FINANCING SOURCES (USES):			
Proceeds from refunding bonds.....	1,055,000	-	1,055,000
Premium from issuance of bonds.....	115,000	-	115,000
Payments to refunded bond escrow agent.....	(1,193,969)	-	(1,193,969)
Transfers in.....	26,460	1,622,066	1,648,526
Transfers out.....	(5,603,204)	(513,585)	(6,116,789)
TOTAL OTHER FINANCING SOURCES (USES).....	(5,600,713)	1,108,481	(4,492,232)
NET CHANGE IN FUND BALANCES.....	1,303,744	(464,717)	839,027
FUND BALANCES AT BEGINNING OF YEAR.....	10,809,712	11,902,772	22,712,484
FUND BALANCES AT END OF YEAR.....	\$ 12,113,456	\$ 11,438,055	\$ 23,551,511

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$	839,027
<p>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.</p>		
Capital outlay.....	8,077,684	
Depreciation expense.....	<u>(4,416,659)</u>	
Net effect of reporting capital assets.....		3,661,025
<p>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 unavailable revenue.....</p>		
		(123,031)
<p>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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p>		
Premium from issuance of bonds, net of issue costs.....	(115,000)	
Issuance of refunding bonds and notes.....	(1,055,000)	
Payments to refunded bond escrow agent.....	1,193,969	
Debt service principal payments.....	<u>2,894,600</u>	
Net effect of reporting long-term debt.....		2,918,569
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(104,900)	
Net change in landfill liability.....	350,695	
Net change in accrued interest on long-term debt.....	22,565	
Amortization of deferred charge on refunding.....	196,572	
Net change in other postemployment benefits obligation.....	(5,658,930)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	2,539,857	
Net change in net pension liability.....	<u>(3,753,202)</u>	
Net effect of reporting long-term liabilities.....		(6,407,343)
<p>Internal service funds are used by management to account for health insurance.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>1,391,192</u>
Change in net position of governmental activities.....	\$	<u><u>2,279,439</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2016

	Sewer Enterprise	Water Enterprise	Total	Governmental Activities - Internal Service Funds
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 4,060,350	\$ 17,335,766	\$ 21,396,116	\$ 3,373,430
Investments.....	4,794,302	442,410	5,236,712	3,326,699
Receivables, net of allowance for uncollectibles:				
Sewer fees.....	2,721,721	-	2,721,721	-
Water fees.....	-	3,070,237	3,070,237	-
Departmental and other.....	-	-	-	28,933
Working capital deposit.....	-	-	-	2,573,100
Total current assets.....	11,576,373	20,848,413	32,424,786	9,302,162
NONCURRENT:				
Capital assets, nondepreciable.....	-	1,022,870	1,022,870	-
Capital assets, depreciable.....	105,291,286	35,851,259	141,142,545	-
Total noncurrent assets.....	105,291,286	36,874,129	142,165,415	-
TOTAL ASSETS.....	116,867,659	57,722,542	174,590,201	9,302,162
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions.....	92,589	286,709	379,298	-
LIABILITIES				
CURRENT:				
Warrants payable.....	53,574	87,763	141,337	7,656
Accrued payroll.....	2,764	16,375	19,139	-
Health claims payable.....	-	-	-	1,499,350
Accrued interest.....	1,373,420	307,808	1,681,228	-
Other liabilities.....	20,000	-	20,000	-
Compensated absences.....	14,300	48,700	63,000	-
Bonds payable.....	4,565,829	2,396,132	6,961,961	-
Total current liabilities.....	6,029,887	2,856,778	8,886,665	1,507,006
NONCURRENT:				
Compensated absences.....	21,000	152,000	173,000	-
Other postemployment benefits obligation.....	107,274	937,836	1,045,110	-
Net pension liability.....	1,813,597	5,615,959	7,429,556	-
Bonds and notes payable.....	71,920,449	21,472,912	93,393,361	-
Total noncurrent liabilities.....	73,862,320	28,178,707	102,041,027	-
TOTAL LIABILITIES.....	79,892,207	31,035,485	110,927,692	1,507,006
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions.....	27,607	85,488	113,095	-
NET POSITION				
Net investment in capital assets.....	28,805,008	13,593,289	42,398,297	-
Unrestricted.....	8,235,426	13,294,989	21,530,415	7,795,156
TOTAL NET POSITION.....	\$ 37,040,434	\$ 26,888,278	\$ 63,928,712	\$ 7,795,156

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

	Sewer Enterprise	Water Enterprise	Total	Governmental Activities - Internal Service Funds
OPERATING REVENUES:				
Employee contributions	\$ -	\$ -	\$ -	\$ 8,410,170
Employer contributions	-	-	-	8,599,571
Charges for services	7,802,274	8,499,592	16,301,866	-
Other	-	4,312	4,312	184,579
TOTAL OPERATING REVENUES	7,802,274	8,503,904	16,306,178	17,194,320
OPERATING EXPENSES:				
Cost of services and administration	2,784,713	7,314,232	10,098,945	-
Depreciation	2,984,438	2,449,894	5,434,332	-
Employee benefits	-	-	-	15,881,496
TOTAL OPERATING EXPENSES	5,769,151	9,764,126	15,533,277	15,881,496
OPERATING INCOME (LOSS)	2,033,123	(1,260,222)	772,901	1,312,824
NONOPERATING REVENUES (EXPENSES):				
Investment income	353	-	353	48,021
Interest expense	(3,284,485)	(498,310)	(3,782,795)	-
Intergovernmental	106,623	-	106,623	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(3,177,509)	(498,310)	(3,675,819)	48,021
INCOME (LOSS) BEFORE TRANSFERS	(1,144,386)	(1,758,532)	(2,902,918)	1,360,845
TRANSFERS:				
Transfers in	4,437,916	-	4,437,916	30,347
CHANGE IN NET POSITION	3,293,530	(1,758,532)	1,534,998	1,391,192
NET POSITION AT BEGINNING OF YEAR	33,746,904	28,646,810	62,393,714	6,403,964
NET POSITION AT END OF YEAR	\$ 37,040,434	\$ 26,888,278	\$ 63,928,712	\$ 7,795,156

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

	Sewer Enterprise	Water Enterprise	Total	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 7,173,544	\$ 8,162,430	\$ 15,335,974	\$ 8,410,170
Receipts from interfund services provided.....	-	-	-	8,833,041
Payments to vendors.....	(2,056,498)	(5,597,047)	(7,653,545)	(16,042,885)
Payments to employees.....	(623,952)	(1,677,110)	(2,301,062)	-
NET CASH FROM OPERATING ACTIVITIES.....	4,493,094	888,273	5,381,367	1,200,326
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in.....	4,437,916	-	4,437,916	30,347
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	-	12,500,000	12,500,000	-
Proceeds from the issuance of refunding bonds and notes.....	6,850,000	415,000	7,265,000	-
Premium from the issuance of bonds and notes.....	-	567,605	567,605	-
Acquisition and construction of capital assets.....	(63,475)	(338,395)	(401,870)	-
Principal payments on bonds and notes.....	(10,860,522)	(2,143,921)	(13,004,443)	-
Interest paid on capital debt.....	(3,294,380)	(377,895)	(3,672,275)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(7,368,377)	10,622,394	3,254,017	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	353	-	353	48,021
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,562,986	11,510,667	13,073,653	1,278,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	7,291,666	6,267,509	13,559,175	5,421,435
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 8,854,652	\$ 17,778,176	\$ 26,632,828	\$ 6,700,129
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 2,033,123	\$ (1,260,222)	\$ 772,901	\$ 1,312,824
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	2,984,438	2,449,894	5,434,332	-
Deferred (outflows)/inflows of resources related to pensions.....	(59,475)	(183,271)	(242,746)	-
Changes in assets and liabilities:				
Water fees.....	-	(341,474)	(341,474)	-
Sewer fees.....	(628,730)	-	(628,730)	-
Departmental and other.....	-	-	-	48,891
Working capital deposit.....	-	-	-	(57,900)
Warrants payable.....	(24,814)	(170,096)	(194,910)	(157,483)
Accrued payroll.....	(959)	(12,332)	(13,291)	-
Health claims payable.....	-	-	-	53,994
Accrued compensated absences.....	(6,700)	3,100	(3,600)	-
Other postemployment benefits obligation.....	13,405	101,868	115,273	-
Net pension liability.....	182,806	300,806	483,612	-
Total adjustments.....	2,459,971	2,148,495	4,608,466	(112,498)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 4,493,094	\$ 888,273	\$ 5,381,367	\$ 1,200,326
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Intergovernmental subsidy of principal and interest payments.....	\$ 106,623	\$ -	\$ 106,623	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Other Postemployment Benefit Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ -	\$ 3,404	\$ 810,493
Investments.....	1,106,230	-	30,315
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	-	286,815
TOTAL ASSETS.....	1,106,230	3,404	1,127,623
LIABILITIES			
Accrued payroll.....	-	-	61,614
Liabilities due depositors.....	-	-	1,044,514
Other liabilities.....	-	-	21,495
TOTAL LIABILITIES.....	-	-	1,127,623
NET POSITION			
Held in trust for OPEB benefits and other purposes.....	\$ <u>1,106,230</u>	\$ <u>3,404</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2016

	<u>Other Postemployment Benefit Fund</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS:		
Contributions:		
Employer contributions.....	\$ 350,000	\$ -
Net investment income (loss):		
Net change in fair value of investments.....	(11,521)	-
Interest.....	20,495	65
Total investment income (loss).....	8,974	65
Less: investment expense.....	(4,357)	-
Net investment income (loss).....	4,617	65
TOTAL ADDITIONS.....	354,617	65
NET POSITION AT BEGINNING OF YEAR.....	751,613	\$ 3,339
NET POSITION AT END OF YEAR.....	<u>\$ 1,106,230</u>	<u>\$ 3,404</u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Tewksbury, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town is a Massachusetts municipal corporation that is governed by an elected Board of Selectmen and an appointed Town Manager.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. It has been determined that there are no component units that meet the requirements for inclusion in the Town's basic financial statements.

Joint Venture – The Town has entered into a joint venture for the Shawsheen Valley Technical High School along with other municipalities to pool resources and share the costs, risk and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified recipients. The Town has no equity interest in this joint venture. The Town's assessment for 2016 was \$5,671,070. Complete financial statements for the Shawsheen Valley Technical High School can be obtained by contacting their administrative offices at 100 Cook Street, Billerica, Massachusetts 01821.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. *Governmental activities* are primarily supported by taxes and intergovernmental revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*

- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The only major governmental funds reported is the *general fund* which is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following proprietary fund types are reported:

The *sewer enterprise fund* accounts for the Town's sewer activities.

The *water enterprise fund* accounts for the Town's water activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the Town's health insurance and workers' compensation.

Fiduciary funds are used to account for financial 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.

The following fiduciary fund types are reported:

The *other postemployment benefit trust fund* is used to account for other postemployment benefit (OPEB), which accumulate resources to provide funding for future OPEB liabilities

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The Town's educational scholarship trusts are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity, such as collection and payment of charges for special details, escrow accounts, deposits and deputy collector accounts.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of

market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Fair Value Measurements.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st 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 year of the levy.

Real estate tax liens are processed during the second and fourth quarter of every year on delinquent properties and are recorded as receivables in the year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Sewer

Sewer user fees are levied tri-annually for individual and commercial meter readings. These fees are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Water

Water user fees are levied tri-annually for individual and commercial meter readings. These fees are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed in December of every year and included as a lien on the property owner's tax bill. Water charges and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of ambulance and Veteran's receivables which are recorded as receivables in the year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, library and school books, computer software, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the governmental activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Building improvements.....	5-50
Machinery and equipment.....	3-20
Library and school books.....	3-10
Computer software.....	5-10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows of resources related to pensions in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflows of resources related to pensions in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program and the Massachusetts Clean Water Trust's loan subsidy program is not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been "restricted for" the following:

"Permanent funds – expendable" represents the endowment and the amount of realized and unrealized investment earnings of donor restricted trusts that support governmental programs.

"Gifts and grants" represents restrictions placed on assets from outside parties and consists primarily of gifts and federal and state grants.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption

must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Town Meeting is the highest level of decision making authority that can, by Town Meeting vote, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town's by-laws authorize the Town Auditor to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Pensions

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 Middlesex County Retirement System and the Massachusetts Teachers Retirement System. Additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

Q. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

R. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$43,521,803 and the bank balance totaled \$45,952,789. Of the bank balance, \$9,308,513 was covered by Federal Depository Insurance, \$11,726,714 was covered by Depositor's Insurance Fund, \$767,763 was covered by Share Insurance Fund and \$24,149,799 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2016, the Town of Tewksbury had the following investments:

Investments by fair value level	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
Government Sponsored Enterprises.....	\$ 11,125,133	\$ 11,125,133	\$ -	\$ -
Corporate Bonds.....	8,962,423	-	8,962,423	-
Total debt securities.....	20,087,556	11,125,133	8,962,423	-
<u>Other investments:</u>				
Money Market Mutual Funds.....	201,476	201,476	-	-
Total investments by fair value level.....	20,289,032	\$ 11,326,609	\$ 8,962,423	\$ -
Investments measured at amortized cost				
MMDT.....	84,038			
Total investments.....	\$ 20,373,070			

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

All of the Town's OPEB trust assets are invested in the State Retirees Benefit Trust Fund (SRBTF), which was established under the provisions of Massachusetts General Laws Chapter 32A, Section 24. SRBTF assets are administered by the Pension Reserve Investment Management Board (PRIM). As of June 30, 2016, the value of these investments totaled \$1,106,230.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town's investments are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form. Out of the Town's investments, \$500,000 of debt securities are fully insured by Securities Investor Protector Corporation and are not exposed to custodial credit risk. This leaves custodial credit risk exposure totaling \$19,587,556 because the related securities are uninsured, unregistered, and held by the counterparty. The Town does not have a formal investment policy for custodial credit risk.

Interest Rate Risk

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.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk. The investment ratings are as follows:

	Government Sponsored Enterprises	Corporate Bonds
AA+.....	\$ 11,125,133	\$ 256,817
A+.....	-	974,362
A.....	-	2,497,677
A-.....	-	581,624
BBB+.....	-	3,050,267
BBB.....	-	830,041
BBB-.....	-	771,635
	<u>\$ 11,125,133</u>	<u>\$ 8,962,423</u>

Additionally, the Town holds \$84,038 in MMDT which are unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investment in a single issuer. The Town places no limit on the amount the government may invest in any one issuer. As of June 30, 2016, the Town’s investments with a single issuer that represents 5 percent or more of the Town’s total investments are as follows:

Issuer	Fair Value	Percentage of Total Investments
Federal Home Loan Mortgage Corporation.... \$	1,443,760	7.19%
Federal Home Loan Bank.....	4,921,855	24.50%
Federal Farm Credit Bank.....	2,091,526	10.41%
Federal National Management Association....	2,667,992	13.28%

Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The following table presents financial assets at June 30, 2016, that the Town measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investments by fair value level	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
Government Sponsored Enterprises..... \$	11,125,133	\$ 11,125,133	\$ -	\$ -
Corporate Bonds.....	8,962,423	-	8,962,423	-
Total debt securities.....	20,087,556	11,125,133	8,962,423	-
<u>Other investments:</u>				
Money Market Mutual Funds.....	201,476	201,476	-	-
Total investments by fair value level.....	20,289,032	\$ <u>11,326,609</u>	\$ <u>8,962,423</u>	\$ <u>-</u>
Investments measured at amortized cost				
MMDT.....	84,038			
Total investments.....	\$ <u>20,373,070</u>			

Government sponsored enterprises and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

NOTE 3 – RECEIVABLES

At June 30, 2016, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 809,278	\$ (95,017)	\$ 714,261
Tax liens.....	2,715,415	-	2,715,415
Motor vehicle and other excise taxes.....	572,506	(170,431)	402,075
Departmental and other.....	1,361,450	(271,506)	1,089,944
Intergovernmental.....	3,016,511	-	3,016,511
Total.....	<u>\$ 8,475,160</u>	<u>\$ (536,954)</u>	<u>\$ 7,938,206</u>

At June 30, 2016, receivables for the sewer and water enterprise funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer fees.....	\$ 2,721,721	\$ -	\$ 2,721,721
Water fees.....	3,070,237	-	3,070,237
Total.....	<u>\$ 5,791,958</u>	<u>\$ -</u>	<u>\$ 5,791,958</u>

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes....	\$ 581,297	\$ -	\$ 581,297
Tax liens.....	2,709,132	6,283	2,715,415
Motor vehicle and other excise taxes.....	402,075	-	402,075
Departmental and other.....	760,696	-	760,696
Intergovernmental.....	-	2,860,220	2,860,220
Total.....	<u>\$ 4,453,200</u>	<u>\$ 2,866,503</u>	<u>\$ 7,319,703</u>

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,845,881	\$ -	\$ -	\$ 1,845,881
Construction in progress.....	4,668,268	4,086,416	(867,890)	7,886,794
Artwork.....	903,300	-	-	903,300
	<u>7,417,449</u>	<u>4,086,416</u>	<u>(867,890)</u>	<u>10,635,975</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,007,196	137,990	(135,000)	2,010,186
Buildings.....	120,932,812	2,027,680	-	122,960,492
Buildings improvements.....	12,920,136	212,592	(1,867,200)	11,265,528
Machinery and equipment.....	10,233,737	1,951,379	(809,547)	11,375,569
Library and school books.....	3,261,757	-	-	3,261,757
Computer software.....	367,465	-	-	367,465
Infrastructure.....	44,644,105	529,517	-	45,173,622
	<u>194,367,208</u>	<u>4,859,158</u>	<u>(2,811,747)</u>	<u>196,414,619</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(534,522)	(135,410)	135,000	(534,932)
Buildings.....	(25,276,094)	(3,014,894)	-	(28,290,988)
Buildings improvements.....	(10,471,130)	(251,805)	1,867,200	(8,855,735)
Machinery and equipment.....	(7,016,242)	(617,752)	809,547	(6,824,447)
Library and school books.....	(3,207,243)	(16,192)	-	(3,223,435)
Computer software.....	(242,775)	(14,670)	-	(257,445)
Infrastructure.....	(30,749,015)	(365,936)	-	(31,114,951)
	<u>(77,497,021)</u>	<u>(4,416,659)</u>	<u>2,811,747</u>	<u>(79,101,933)</u>
Total capital assets being depreciated, net.....	<u>116,870,187</u>	<u>442,499</u>	<u>-</u>	<u>117,312,686</u>
Total governmental activities capital assets, net.....	<u>\$ 124,287,636</u>	<u>\$ 4,528,915</u>	<u>\$ (867,890)</u>	<u>\$ 127,948,661</u>

Capital asset activity for the business-type activities for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 197,394	\$ 63,475	\$ -	\$ 260,869
Infrastructure.....	143,332,580	-	-	143,332,580
Total capital assets being depreciated.....	143,529,974	63,475	-	143,593,449
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(182,660)	(7,932)	-	(190,592)
Infrastructure.....	(35,135,065)	(2,976,506)	-	(38,111,571)
Total accumulated depreciation.....	(35,317,725)	(2,984,438)	-	(38,302,163)
Total sewer capital assets, net.....	\$ 108,212,249	\$ (2,920,963)	\$ -	\$ 105,291,286
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 204,000	\$ -	\$ -	\$ 204,000
Construction in progress.....	1,785,263	41,853	(1,008,246)	818,870
Total capital assets not being depreciated.....	1,989,263	41,853	(1,008,246)	1,022,870
<u>Capital assets being depreciated:</u>				
Buildings.....	22,455,883	-	-	22,455,883
Building improvements.....	4,345,425	-	-	4,345,425
Machinery and equipment.....	3,440,968	175,114	-	3,616,082
Infrastructure.....	72,839,985	1,129,674	-	73,969,659
Total capital assets being depreciated.....	103,082,261	1,304,788	-	104,387,049
<u>Less accumulated depreciation for:</u>				
Buildings.....	(13,885,758)	(381,718)	-	(14,267,476)
Building improvements.....	(2,576,087)	(186,394)	-	(2,762,481)
Machinery and equipment.....	(2,179,459)	(345,806)	-	(2,525,265)
Infrastructure.....	(47,444,592)	(1,535,976)	-	(48,980,568)
Total accumulated depreciation.....	(66,085,896)	(2,449,894)	-	(68,535,790)
Total water capital assets being depreciated, net.....	36,996,365	(1,145,106)	-	35,851,259
Total water capital assets, net.....	\$ 38,985,628	\$ (1,103,253)	\$ (1,008,246)	\$ 36,874,129

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$	80,683
Public safety.....		483,447
Education.....		3,003,090
Public works.....		529,285
Culture and recreation.....		<u>320,154</u>

Total depreciation expense - governmental activities..... \$ 4,416,659

Business-Type Activities:

Sewer.....	\$	2,984,438
Water.....		<u>2,449,894</u>

Total depreciation expense - business-type activities..... \$ 5,434,332

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Internal Service Fund		
General Fund.....	\$ -	\$ 1,134,941	\$ 4,437,916	\$ 30,347		\$ 5,603,204 (1)
Nonmajor Governmental Funds.....	<u>26,460</u>	<u>487,125</u>	<u>-</u>	<u>-</u>		<u>513,585 (2)</u>
Total.....	<u>\$ 26,460</u>	<u>\$ 1,622,066</u>	<u>\$ 4,437,916</u>	<u>\$ 30,347</u>		<u>\$ 6,116,789</u>

- (1) Represents budgeted transfers from the general fund to nonmajor governmental funds, the sewer enterprise fund, and the internal service fund.
- (2) Represents transfers from nonmajor funds to the general fund to close old accounts. Represents transfers from the community preservation nonmajor fund to nonmajor capital projects and between other nonmajor funds.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and water and sewer enterprise funds, respectively.

Details related to the short-term debt activity for the year ended June 30, 2016, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2015	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2016
Governmental Funds							
BAN	Municipal Purpose.....	0.50%	12/23/16	\$ 150,000	\$ -	\$ (150,000)	\$ -
BAN	Municipal Purpose.....	0.70%	01/05/17	-	228,980	-	228,980
Total governmental funds.....				\$ 150,000	\$ 228,980	\$ (150,000)	\$ 228,980

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2016, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Issue:	Maturities Through	Original Loan Amount	Coupon Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Municipal Purpose Bonds of 2006.....	2025	2,500,000	4.00-5.50	\$ 1,300,000	\$ -	\$ (1,300,000)	\$ -
Municipal Purpose Bonds of 2007.....	2026	1,750,000	4.00-5.50	955,000	-	(95,000)	860,000
Municipal Purpose Refunding Bonds of 2009.....	2019	2,795,000	2.00-3.125	920,000	-	(310,000)	610,000
Municipal Purpose Bonds of 2010.....	2020	200,000	2.00-4.00	100,000	-	(20,000)	80,000
Municipal Purpose Bonds of 2012.....	2031	32,170,000	2.00-4.00	25,280,000	-	(1,580,000)	23,700,000
Municipal Purpose Bonds of 2014.....	2022	100,000	2.00	70,000	-	(10,000)	60,000
Municipal Purpose Refunding Bonds of 2014.....	2022	3,285,025	2.00	2,177,665	-	(369,600)	1,808,065
Municipal Purpose Bonds of 2015.....	2035	7,600,000	2.50-5.00	7,600,000	-	(380,000)	7,220,000
Municipal Purpose Refunding Bonds of 2016.....	2025	1,055,000	2.00-5.00	-	1,055,000	-	1,055,000
Total governmental bonds payable.....				38,402,665	1,055,000	(4,064,600)	35,393,065
Add: unamortized premium.....				943,405	-	(105,541)	837,864
Total governmental bonds payable, net.....				\$ 39,346,070	\$ 1,055,000	\$ (4,170,141)	\$ 36,230,929

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 2,837,820	\$ 1,295,960	\$ 4,133,780
2018.....	2,731,040	1,191,616	3,922,656
2019.....	2,666,290	1,088,810	3,755,100
2020.....	2,495,795	987,946	3,483,741
2021.....	2,412,965	888,830	3,301,795
2022.....	2,404,155	796,070	3,200,225
2023.....	2,160,000	703,288	2,863,288
2024.....	2,160,000	627,610	2,787,610
2025.....	2,160,000	549,958	2,709,958
2026.....	2,045,000	481,413	2,526,413
2027.....	1,960,000	414,975	2,374,975
2028.....	1,960,000	348,275	2,308,275
2029.....	1,960,000	273,675	2,233,675
2030.....	1,960,000	199,075	2,159,075
2031.....	1,960,000	124,475	2,084,475
2032.....	380,000	49,400	429,400
2033.....	380,000	37,525	417,525
2034.....	380,000	25,175	405,175
2035.....	380,000	12,825	392,825
Total.....	\$ 35,393,065	\$ 10,096,901	\$ 45,489,966

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Coupon Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Sewer.....	2035	\$ 89,678,000	2.00-6.75	\$ 73,820,000	\$ -	\$ (9,795,000)	\$ 64,025,000
Sewer Refunding.....	2035	13,811,180	2.00-3.125	5,809,815	6,850,000	(1,213,665)	11,446,150
MCWT-Sewer.....	2017	3,822,550	-	580,114	-	(285,668)	294,446
Total sewer enterprise bonds payable.....				80,209,929	6,850,000	(11,294,333)	75,765,596
Add: unamortized premium.....				454,472	350,000	(83,790)	720,682
Total sewer enterprise bonds payable, net.....				\$ 80,664,401	\$ 7,200,000	\$ (11,378,123)	\$ 76,486,278

Debt service requirements for principal and interest for the sewer enterprise fund bonds and notes payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 4,446,871	\$ 3,460,541	\$ 7,907,412
2018.....	4,581,185	3,251,609	7,832,794
2019.....	5,004,290	3,063,825	8,068,115
2020.....	5,462,710	2,838,851	8,301,561
2021.....	5,720,560	2,578,495	8,299,055
2022.....	5,884,980	2,318,009	8,202,989
2023.....	6,155,000	2,075,048	8,230,048
2024.....	6,400,000	1,805,286	8,205,286
2025.....	6,635,000	1,523,925	8,158,925
2026.....	6,700,000	1,231,087	7,931,087
2027.....	6,940,000	927,663	7,867,663
2028.....	5,025,000	615,362	5,640,362
2029.....	3,230,000	379,544	3,609,544
2030.....	1,890,000	227,056	2,117,056
2031.....	370,000	137,956	507,956
2032.....	340,000	109,556	449,556
2033.....	335,000	82,055	417,055
2034.....	325,000	54,712	379,712
2035.....	320,000	27,275	347,275
Total.....	\$ 75,765,596	\$ 26,707,855	\$ 102,473,451

Bonds and Notes Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Coupon Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Water.....	2029	\$ 23,179,000	2.00-6.75	\$ 5,390,000	\$ 12,500,000	\$ (1,445,000)	\$ 16,445,000
Water Refunding.....	2022	3,963,795	2.00-3.125	2,377,520	415,000	(386,735)	2,405,785
MCWT-Water.....	2027	7,190,614	2.00	4,661,784	-	(347,186)	4,314,598
Total water enterprise bonds payable.....				\$ 12,429,304	\$ 12,915,000	\$ (2,178,921)	\$ 23,165,383
Add: unamortized premium.....				168,162	567,605	(35,338)	703,661
Total water enterprise bonds payable, net.....				\$ 12,597,466	\$ 13,482,605	\$ (2,214,259)	\$ 23,869,044

Debt service requirements for principal and interest for the water enterprise fund bonds and notes payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 2,338,955	\$ 809,252	\$ 3,148,207
2018.....	2,174,131	655,331	2,829,462
2019.....	1,963,076	593,950	2,557,026
2020.....	1,687,598	533,006	2,220,604
2021.....	1,610,176	472,413	2,082,589
2022.....	1,507,318	415,296	1,922,614
2023.....	1,389,361	381,066	1,770,427
2024.....	1,407,429	329,369	1,736,798
2025.....	1,275,660	277,041	1,552,701
2026.....	1,099,056	237,536	1,336,592
2027.....	1,067,623	200,058	1,267,681
2028.....	635,000	176,582	811,582
2029.....	635,000	157,432	792,432
2030.....	625,000	138,282	763,282
2031.....	625,000	119,532	744,532
2032.....	625,000	100,782	725,782
2033.....	625,000	81,250	706,250
2034.....	625,000	61,718	686,718
2035.....	625,000	41,406	666,406
2036.....	625,000	21,094	646,094
Total.....	\$ <u>23,165,383</u>	\$ <u>5,802,396</u>	\$ <u>28,967,779</u>

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$88,017 and interest costs for \$6,464. Thus, net MCWT loan repayments, including interest, are scheduled to be \$245,556. The interest subsidies are guaranteed. The principal subsidies are supported through future investment income and are expected to be made, although not guaranteed. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2016 principal and interest subsidies totaled \$83,911 and \$22,812, respectively.

In order to take advantage of favorable interest rates, the Town issued \$8,320,000 of general obligation refunding bonds on December 1, 2015, for its governmental, water and sewer operations, \$1,055,000, \$415,000 and \$6,850,000, respectively. The proceeds of the refunding bonds were used to complete a current refunding of existing debt. The refunded bonds totaled \$8,820,000 and became callable on February 15, 2015. As a result of the transaction, the refunded bonds were paid down on the call date and the liability has been removed from the statement of net position. The transaction resulted in an economic gain of \$1,028,944 and a reduction of \$1,502,758 in future debt service payments.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2016, the Town had the following authorized and unissued debt:

Purpose	Amount
Ames Hill Storage Tank.....	\$ 25,000
Solar Panels.....	85,000
High School.....	10,766,582
Roads.....	3,000,000
Water	600,000
Total.....	\$ 14,476,582

Changes in Long-term Liabilities

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 38,402,665	\$ 1,055,000	\$ (4,064,600)	\$ 35,393,065	\$ 2,837,820
Add: Unamortized Premium.....	943,405	-	(105,541)	837,864	99,571
Total Long-Term Bonds and Notes.....	39,346,070	1,055,000	(4,170,141)	36,230,929	2,937,391
Landfill Closure.....	8,686,975	(3,216)	(347,479)	8,336,280	347,345
Compensated Absences.....	2,048,100	1,020,100	(915,200)	2,153,000	916,200
Other Postemployment Benefits.....	44,882,926	11,977,317	(6,318,387)	50,541,856	-
Net Pension Liability.....	74,118,490	3,753,202	-	77,871,692	-
Total.....	\$ 169,082,561	\$ 17,802,403	\$ (11,751,207)	\$ 175,133,757	\$ 4,200,936
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 92,639,233	\$ 19,765,000	\$ (13,473,254)	\$ 98,930,979	\$ 6,785,826
Add: Unamortized Premium.....	622,634	917,605	(119,128)	1,421,111	176,135
Total Long-Term Bonds and Notes.....	93,261,867	20,682,605	(13,592,382)	100,352,090	6,961,961
Compensated Absences.....	239,600	54,400	(58,000)	236,000	63,000
Other Postemployment Benefits.....	929,837	243,980	(128,707)	1,045,110	-
Net Pension Liability.....	6,945,944	483,612	-	7,429,556	-
Total.....	\$ 101,377,248	\$ 21,464,597	\$ (13,779,089)	\$ 109,062,756	\$ 7,024,961

Compensated absence liabilities related to governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. With the exception of compensated absence liabilities, the governmental long-term liabilities are generally liquidated by the general fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town classifies fund balance according to the constraints imposed on the use of the resources.

There are two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories,

and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, spendable fund balances are classified based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Town has classified its fund balances with the following hierarchy:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES:			
Restricted for:			
Town grant funds.....	\$ -	\$ 181,659	\$ 181,659
Town revolving funds.....	-	2,639,445	2,639,445
Town gift funds.....	-	267,598	267,598
Town receipts reserved.....	-	1,252	1,252
Town other funds.....	-	215,503	215,503
Town special articles.....	-	911	911
School grant funds.....	-	1,808,909	1,808,909
School revolving funds.....	-	1,253,735	1,253,735
School gift funds.....	-	42,381	42,381
School other funds.....	-	3,034	3,034
Restricted funds.....	-	2,902,323	2,902,323
Street projects.....	-	75,000	75,000
Town capital projects.....	-	2,161,617	2,161,617
Foster trust fund.....	-	26,774	26,774
Cemetery perpetual care.....	-	24,905	24,905
Committed to:			
General government.....	277,085	-	277,085
Public safety.....	132,598	-	132,598
Education.....	990,059	-	990,059
Public works.....	447,719	-	447,719
Human services.....	5,119	-	5,119
Culture and recreation.....	57,328	-	57,328
Assigned to:			
General government.....	142,849	-	142,849
Public safety.....	98,313	-	98,313
Education.....	251,543	-	251,543
Public works.....	321,169	-	321,169
Human services.....	3,701	-	3,701
Culture and recreation.....	48,203	-	48,203
Unassigned.....	<u>9,337,770</u>	<u>(166,991)</u>	<u>9,170,779</u>
TOTAL FUND BALANCES.....	\$ <u>12,113,456</u>	\$ <u>11,438,055</u>	\$ <u>23,551,511</u>

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the unassigned balance of the general fund includes \$1,346,256 of stabilization fund.

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. In addition, the Town is self-insured for damages not covered by commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town is self-insured for its health insurance and workers’ compensation activities. The health insurance and workers’ compensation activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Incurred But Not Reported claims for workers’ compensation are immaterial and therefore not reported.

Health Insurance

The estimate of Incurred But Not Reported (IBNR) claims is based on a one and one half-month claims paid average. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$150,000 per claim.

This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2014, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End
2015.....	\$ 1,407,772	\$ 15,672,161	\$ (15,634,577)	1,445,356
2016.....	1,445,356	15,935,490	(15,881,496)	1,499,350

NOTE 10 – PENSION PLAN

Plan Description

The Town is a member of the Middlesex County Retirement System (MCRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 76 member units. The MCRS is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

The Town is a member of the Massachusetts Teachers’ Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers

certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$3,585,000 is reported in the general fund as intergovernmental revenue and employee benefits and other fixed charges in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$71,879,600 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. 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. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

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. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the MCERS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015, was \$6,586,336, 33.44% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

At June 30, 2016, the Town reported a liability of \$85,301,248 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement 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 members, actuarially determined. At December 31, 2015, the Town's proportion was 6.612%, which decreased from its 6.748% proportion measured at December 31, 2014.

Pension Expense

For the year ended June 30, 2016, the Town recognized a pension expense of \$8,363,887. At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$4,354,842, from the net difference between projected and actual investment earnings on pension plan investments and deferred inflows of resources related to pensions of \$1,298,478, from the changes in proportion and differences between employer contributions and the proportionate share of contributions. Since the system performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience or a change of assumptions as of December 31, 2014. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are not presented in the initial year of reporting in accordance with GASB Statements 67, 68 and 71.

The Town's deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017.....	\$	780,857
2018.....		780,857
2019.....		780,857
2020.....		<u>713,793</u>
Total.....	\$	<u><u>3,056,364</u></u>

Actuarial Assumptions - The total pension liability in the January 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Prior year's total contribution increased by 6.5% for fiscal 2015 through fiscal 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI liability amortized in level payments.
Remaining amortization period.....	As of July 1, 2012, 7 years remaining for 2002 ERI liability, 8 years remaining for 2003 ERI liability, 10 years remaining for 2010 ERI liability and 23 years for remaining unfunded liability.
Asset valuation method.....	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Investment rate of return.....	7.875%
Discount rate.....	7.875%
Inflation rate.....	4.00%
Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4.
Cost of living adjustments.....	3.0% of first \$14,000 of retirement income.
Mortality Rates:	
Pre-Retirement.....	RP-2000 Employee Mortality Table projected 22 years with Scale AA. (Previously, projected 12 years with Scale AA).
Healthy Retiree.....	RP-2000 Employee Annuitant Mortality Table projected 17 years with Scale AA. (Previously, projected 12 years with Scale AA).
Disabled Retiree.....	RP-2000 Employee Annuitant Mortality Table set forward 3 years projected 17 years with Scale AA. (Previously, set forward 2 years and projected 0 years).
	The RP-2000 Employee Mortality Table projected 22 years with Scale AA and the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

Investment policy - The pension plan’s policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2014, are summarized in the following table:

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

Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.61%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net position liability to changes in the discount rate. The following presents the net position liability, calculated using the discount rate of 7.875%, as well as what the net position 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:

	1% Decrease (6.875%)	Current Discount (7.875%)	1% Increase (8.875%)
The Town's proportionate share of the net pension liability.....	\$ 102,430,715	\$ 85,301,248	\$ 70,714,324

Pension plan fiduciary net position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued Middlesex County Retirement Association financial report.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Tewksbury administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. For 2016, the Town contributed \$6.4 million to the plan, which includes \$350,000 of pre-funded future OPEB liabilities.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. The Town accounts for these contributions in the Other Postemployment Benefit Fund reported within the Fiduciary Funds financial statements. As of June 30, 2016, the balance of this fund totaled \$1.1 million.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (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 #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	11,795,385
Interest on net OPEB obligation.....		2,061,575
Adjustments to annual required contribution.....		<u>(1,635,663)</u>
Annual OPEB cost (expense).....		12,221,297
Contributions made.....		<u>(6,447,094)</u>
Increase in net OPEB obligation.....		5,774,203
Net OPEB obligation - beginning of year.....		<u>45,812,763</u>
Net OPEB obligation - end of year.....	\$	<u><u>51,586,966</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two previous years was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 12,221,297	53%	\$ 51,586,966
6/30/2015	11,484,802	53%	45,812,763
6/30/2014	12,252,239	44%	40,412,993

Funded Status and Funding Progress – The funded status of the Plan as of the most recent and two prior actuarial valuation dates are as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
6/30/2014	\$ 369,528	\$ 162,044,376	\$ 161,674,848	0.2%	\$ 38,278,536	422.4%
6/30/2012	-	160,077,732	160,077,732	0%	41,964,868	381.5%
6/30/2010	-	160,622,133	160,622,133	0%	38,468,604	417.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.5% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend rate of 6% initially, graded to 4.5% over 4 years. The UAAL is being amortized over a 30 year open period assuming a 4% aggregate annual payroll growth. The remaining amortization period at June 30, 2015, is 30 years.

NOTE 12 – LANDFILL

In August 2009 the Town entered into a consent decree related to an environmental case associated with the Sutton Brook landfill. The consent decree, among other matters, obligated the Town to contribute \$10,159,454, over a 30 year period ending in 2040, into a trust established to remedy the environmental impact created by the landfill. Payments are \$347,479 per year.

NOTE 13 – COMMITMENTS

The Town has applied to the Massachusetts School Building Authority (MSBA) and started a feasibility study for a new Elementary School. The new elementary school would combine multiple schools and cost approximately \$80-100 million.

NOTE 14 – CONTINGENCIES

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2016, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 21, 2016, which is the date the financial statements were available to be issued.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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Required Supplementary Information

General Fund Budgetary Schedule

The General Fund is the general operating fund of the Town. It is used to account for all the financial resources, except those required to be accounted for in another fund.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Amounts Carried Forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 72,593,677	\$ 72,593,677	\$ 73,878,763
Motor vehicle and other excise taxes.....	-	3,980,698	3,980,698	3,980,698
Hotel/motel tax.....	-	755,736	755,736	755,736
Meals tax.....	-	526,124	526,124	526,124
Charges for services.....	-	963,457	963,457	963,457
Penalties and interest on taxes.....	-	444,779	444,779	444,779
Fees.....	-	616,237	616,237	616,237
Rentals.....	-	387,195	387,195	387,195
Payments in lieu of taxes.....	-	34,093	34,093	34,093
Licenses and permits.....	-	679,916	679,916	679,916
Fines and forfeitures.....	-	68,605	68,605	68,605
Intergovernmental.....	-	16,572,574	16,572,574	16,572,574
Departmental and other.....	-	75,000	75,000	75,000
Investment income.....	-	32,428	32,428	32,428
TOTAL REVENUES.....	-	97,730,519	97,730,519	99,015,605
EXPENDITURES:				
Current:				
General Government.....	352,585	2,687,259	3,039,844	3,310,130
Public Safety.....	121,663	11,907,740	12,029,403	13,502,528
Education.....	830,470	57,110,545	57,941,015	58,908,362
Public Works.....	369,032	2,279,279	2,648,311	3,261,610
Health and Sanitation.....	19,637	2,645,665	2,665,302	2,662,302
Human Services.....	6,289	653,803	660,092	736,366
Culture and Recreation.....	22,340	1,222,665	1,245,005	1,280,087
Pension benefits.....	-	5,090,565	5,090,565	5,090,565
Employee benefits.....	-	5,398,247	5,398,247	5,275,995
State and county charges.....	-	1,554,026	1,554,026	1,554,026
Debt service:				
Principal.....	-	3,225,818	3,225,818	2,664,600
Interest.....	-	688,552	688,552	1,249,770
TOTAL EXPENDITURES.....	1,722,016	94,464,164	96,186,180	99,496,341
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,722,016)	3,266,355	1,544,339	(480,736)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	1,628,775	1,628,775	975,000
Transfers out.....	-	(4,470,537)	(4,470,537)	(6,432,135)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(2,841,762)	(2,841,762)	(5,457,135)
NET CHANGE IN FUND BALANCE.....	(1,722,016)	424,593	(1,297,423)	(5,937,871)
BUDGETARY FUND BALANCE, Beginning of year.....	9,060,044	9,060,044	9,060,044	9,060,044
BUDGETARY FUND BALANCE, End of year.....	\$ 7,338,028	\$ 9,484,637	\$ 7,762,621	\$ 3,122,173

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	74,883,904	\$ -	\$ 1,005,141
	4,636,617	-	655,919
	1,099,717	-	343,981
	581,319	-	55,195
	1,202,681	-	239,224
	423,983	-	(20,796)
	890,376	-	274,139
	422,018	-	34,823
	38,187	-	4,094
	1,154,170	-	474,254
	123,454	-	54,849
	17,275,513	-	702,939
	478,449	-	403,449
	105,476	-	73,048
	<u>103,315,864</u>	<u>-</u>	<u>4,300,259</u>
	2,759,204	419,934	130,992
	13,154,789	230,911	116,828
	57,218,499	1,241,602	448,261
	2,347,443	768,888	145,279
	2,646,288	-	16,014
	725,665	8,820	1,881
	1,149,282	105,531	25,274
	5,090,565	-	-
	5,237,500	-	38,495
	1,558,387	-	(4,361)
	2,664,600	-	-
	<u>1,321,488</u>	<u>-</u>	<u>(71,718)</u>
	<u>95,873,710</u>	<u>2,775,686</u>	<u>846,945</u>
	<u>7,442,154</u>	<u>(2,775,686)</u>	<u>5,147,204</u>
	1,010,696	-	35,696
	<u>(6,499,597)</u>	<u>-</u>	<u>(67,462)</u>
	<u>(5,488,901)</u>	<u>-</u>	<u>(31,766)</u>
	1,953,253	(2,775,686)	5,115,438
	<u>9,060,044</u>	<u>-</u>	<u>-</u>
\$	<u><u>11,013,297</u></u>	\$ <u><u>(2,775,686)</u></u>	\$ <u><u>5,115,438</u></u>

Pension Plan Schedules

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MIDDLESEX CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Town's proportion of the net pension liability (asset).....	6.748%	6.612%
Town's proportionate share of the net pension liability (asset)..... \$	81,064,434	\$ 85,301,248
Town's covered employee payroll (*)..... \$	18,938,690	\$ 19,696,238
Net pension liability as a percentage of covered-employee payroll.....	428.04%	433.08%
Plan fiduciary net position as a percentage of the total pension liability.....	47.65%	46.13%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

*Covered employee payroll as reported in the January 1, 2014, funding
valuation report.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS
MIDDLESEX CONTRIBUTORY RETIREMENT SYSTEM**

	2015	2016
Actuarially determined contribution (a).....	\$ 6,304,010	\$ 6,586,336
Contributions in relation to the actuarially determined contribution.....	<u>6,304,010</u>	<u>6,586,336</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll (*).....	\$ 18,938,690	\$ 19,696,238
Contributions as a percentage of covered- employee payroll.....	33.29%	33.44%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

(a) Based on the results of the January 1, 2014, actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for fiscal 2016.

*Covered employee payroll as reported in the January 1, 2014,
funding valuation report.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Fiscal Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the Town	Town's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2016.....	\$ 71,879,600	\$ 3,587,027	55.38%
2015.....	55,302,785	3,261,000	61.64%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Other Postemployment Benefits Plan Schedules

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2014	\$ 369,528	\$ 162,044,376	\$ 161,674,848	0.2%	\$ 38,278,536	422.4%
6/30/2012	-	160,077,732	160,077,732	0%	41,964,868	381.5%
6/30/2010	-	160,622,133	160,622,133	0%	38,468,604	417.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2016	\$ 11,795,385	\$ 6,447,094	55%
6/30/2015	11,311,155	6,085,032	54%
6/30/2014	12,028,575	5,388,617	45%
6/30/2013	11,496,810	4,774,291	42%
6/30/2012	11,171,900	4,497,145	40%
6/30/2011	11,243,039	4,281,149	38%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2014
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4%, closed
Amortization period.....	30 years

Actuarial Assumptions:

Investment rate of return.....	4.5%, partial funding
Medical/drug cost trend rate.....	6% graded to 4.5% over 4 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	764
Current active members.....	<u>693</u>
 Total	 <u><u>1,457</u></u>

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is reviewed by the Finance Committee (Committee). The Committee presents the annual budget to the open Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers less than \$1,500 within budget classifications require department and Town Manager approval while changes greater than \$1,500 require the additional approval of the Finance Committee. Increases or decreases between budget classifications subsequent to the approval of the annual budget requires majority vote at a Special Town Meeting.

The majority of appropriations are non-continuing and lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at a Special Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2016 approved budget, including amounts carried forward from the prior years authorized approximately \$99.0 million in appropriations and other amounts to be raised. There was an approximately \$5.3 million increase from the original budget to the final amended budget.

The Town Auditor's Office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2016, is as follows:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 1,953,253
<u>Perspective difference:</u>	
Activity of the stabilization funds recorded in the general fund for GAAP.....	(379,405)
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	(36,434)
Net change in revenues in recording tax refunds payable.....	(233,670)
Increase in revenues due to on-behalf payments.....	3,585,000
Increase in expenditures due to on-behalf payments.....	<u>(3,585,000)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ 1,303,744</u>

3. Appropriation Deficits

During 2016, actual expenditures and encumbrances exceeded appropriations for state and county charges and debt service interest. These over expenditures will be funded by via the tax levy and other available funds during 2016.

NOTE B – PENSION PLANSchedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Changes in Assumptions:

The actuarial cost method was changed to better reflect the impact of the plan changes effective for employees hired on or after April 2, 2012.

The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 12 years with Scale AA to the RP-2000 Employee Mortality Table projected 22 years with Scale AA.

The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 12 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA.

The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years to the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA.

The investment return assumption was lowered from 8.00% to 7.875%

The salary increase assumption was changed from level rates of 4.75% per year for Group 1 and Group 2 members and 5.25% per year for Group 4 members, including an allowance for inflation of 4.5% per year, to rates based on years of service and ultimate rates of 4.25% per year for Group 1 members, 4.5% per year for Group 2 members and 4.75% per year for Group 4 members, including an allowance for inflation of 4.0% per year.

The assumed retirement age for inactive vested participants was changed from age 65 to age 60 for Group 1 and 2 members and remained the same at age 55 for Group 4 members hired prior to April 2, 2012. For participants hired April 2, 2012 or later, the assumption is 60 for Group 1 members, 55 for Group 2 members, and 50 for Group 4 members.

The administrative expense assumption was increased from \$3,100,000 for calendar 2012 to \$3,400,000 for calendar 2015.

Changes in Plan Provisions:

Members hired on or after April 2, 2012 are covered by the provisions of Chapter 32 as amended by Chapter 176 of the Acts of 2011 and Chapter 139 of the Acts of 2012.

NOTE C – OTHER POST EMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“the Other Post Employment Benefit Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including teachers.

The Town currently finances its other postemployment benefits (OPEB) on combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0.2%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multiyear trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.