

**TOWN OF DOUGLAS, MASSACHUSETTS**

Independent Auditors' Reports Pursuant  
to Governmental Auditing Standards  
and Uniform Guidance

For the Year Ended June 30, 2016

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Selectmen  
Town of Douglas, Massachusetts

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 22, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Melanson Heath*

November 22, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

To the Board of Selectmen  
Town of Douglas, Massachusetts

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Douglas, Massachusetts' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town's major federal programs for the year ended June 30, 2016. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applica-

ble to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Town of Douglas, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a

material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon November 22, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Melanson Heath*

January 26, 2017

TOWN OF DOUGLAS, MASSACHUSETTS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Agency

Cluster Pass-through Agency Program Title	Federal CFDA Number	Pass Through Identifying Number	Federal Expenditures	Passed Through to Subrecipient
<b><u>U.S. Department of Agriculture</u></b>				
Child Nutrition Cluster				
Passed Through Massachusetts Department of Elementary and Secondary Education				
School Breakfast Program	10.553	14-077	\$ 3,775	\$ -
National School Lunch Program - Cash Assistance	10.555	14-077	123,376	-
National School Lunch Program - Non-Cash Assistance	10.555	14-077	38,015	-
Total Child Nutrition Cluster			165,166	-
Total U.S. Department of Agriculture			165,166	-
<b><u>U.S. Department of Transportation</u></b>				
Passed Through the Executive Office of Public Safety				
State and Community Highway Safety	20.600	18X9204020MA15	4,493	-
Total U.S. Department of Transportation			4,493	-
<b><u>U.S. Department of Education</u></b>				
Special Education Cluster				
Passed Through Massachusetts Department of Elementary and Secondary Education				
Special Education Grants to States	84.027	240-034-6-0077	328,096	-
Passed Through Massachusetts Department of Early Education and Care				
Special Education Preschool Grants	84.173	298-847-6-077-Q	17,668	-
Total Special Education Cluster			345,764	-
Passed Through Massachusetts Department of Elementary and Secondary Education				
Title I Grants to Local Educational Agencies	84.010	305-069161-2016-0077	135,764	-
Supporting Effective Instruction State Grant	84.367	140-075292-2016-0077	25,468	-
Total U.S. Department of Education			506,996	-
<b><u>U.S. Department of Homeland Security</u></b>				
Passed Through Massachusetts Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	41,658	-
Assistance to Firefighters Grant	97.044	EMW-2014-FO-01036	179,118	-
Passed Through Massachusetts Executive Office of Public Safety				
Emergency Management Performance Grants	97.042	N/A	2,650	-
Total U.S. Department of Homeland Security			223,426	-
Total Federal Expenditures			\$ 900,081	\$ -

The accompanying notes are an integral part of this schedule.

## TOWN OF DOUGLAS, MASSACHUSETTS

### Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

#### ***Note 1. Basis of Presentation***

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Town under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town.

#### ***Note 2. Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. The amounts reported for the National School Lunch Program – Non-Cash Assistance (Commodities) represent the fair value of commodities provided by the Commonwealth. The Town has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**TOWN OF DOUGLAS, MASSACHUSETTS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
• Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
• Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported

Type of auditors' report issued on compliance for major programs:

Special Education Cluster	Unmodified
---------------------------	------------

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
--	---

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

84.027/84.173	Special Education Cluster
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Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
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**SECTION II - FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None.

**SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS**

There were no findings in the prior year.

**TOWN OF DOUGLAS, MASSACHUSETTS**

**Annual Financial Statements**

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

## Town of Douglas, Massachusetts

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Douglas, Massachusetts

Additional Offices:  
Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

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

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

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Douglas, Massachusetts' internal control over financial reporting and compliance.

*Melanson Heath*

November 22, 2016

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

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

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

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide

financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$56,340,924 (i.e., net position), a change of \$143,698 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$7,032,233, a change of \$5,109,670 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,995,985, a change of \$160,287 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$26,964,381, a change of \$2,511,458 in comparison to the prior year.

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

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

<u>NET POSITION</u>						
	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 10,446	\$ 11,383	\$ 1,890	\$ 1,863	\$ 12,336	\$ 13,246
Capital assets	83,632	83,237	9,059	9,322	92,691	92,559
Deferred outflows	1,005	6	21	-	1,026	6
Total assets and deferred outflows	95,083	94,626	10,970	11,185	106,053	105,811
Long-term liabilities outstanding	41,452	36,142	3,730	3,945	45,182	40,087
Other liabilities	3,855	9,009	456	518	4,311	9,527
Deferred inflows	215	-	4	-	219	-
Total liabilities and deferred inflows	45,522	45,151	4,190	4,463	49,712	49,614
Net position:						
Net investment in capital assets	60,741	59,379	5,347	5,344	66,088	64,723
Restricted	2,236	1,438	-	-	2,236	1,438
Unrestricted	(13,416)	(11,458)	1,433	1,494	(11,983)	(9,964)
Total net position	\$ 49,561	\$ 49,359	\$ 6,780	\$ 6,838	\$ 56,341	\$ 56,197

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,006	\$ 1,508	\$ 1,238	\$ 1,415	\$ 2,244	\$ 2,923
Operating grants and contributions	13,850	12,525	-	-	13,850	12,525
Capital grants and contributions	741	401	-	-	741	401
General revenues:						
Property taxes	14,811	14,375	-	-	14,811	14,375
Excises	1,257	1,154	-	-	1,257	1,154
Penalties and interest on taxes	119	201	-	-	119	201
Grants and contributions not restricted to specific programs	918	962	-	-	918	962
Investment income	70	32	3	3	73	35
Other	718	747	6	8	724	755
Total revenues	33,490	31,905	1,247	1,426	34,737	33,331
Expenses:						
General government	1,834	1,697	-	-	1,834	1,697
Public safety	2,521	2,480	-	-	2,521	2,480
Education	20,676	19,426	-	-	20,676	19,426
Public works	1,433	1,494	-	-	1,433	1,494
Human services	252	264	-	-	252	264
Culture and recreation	275	294	-	-	275	294
Employee benefits	4,524	3,708	-	-	4,524	3,708
Intergovernmental	291	283	-	-	291	283
Interest on long-term debt	1,052	1,107	-	-	1,052	1,107
Miscellaneous	41	-	-	-	41	-
Water/sewer operations	-	-	1,389	1,190	1,389	1,190
Transfer station	-	-	217	224	217	224
Total expenses	32,899	30,753	1,606	1,414	34,505	32,167
Change in net position before transfers	591	1,152	(359)	12	232	1,164
Transfers in (out)	(389)	(232)	301	139	(88)	(93)
Change in net position	202	920	(58)	151	144	1,071
Net position - beginning of year, as restated	49,359	48,439	6,838	6,687	56,197	55,126
Net position - end of year	\$ 49,561	\$ 49,359	\$ 6,780	\$ 6,838	\$ 56,341	\$ 56,197

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$56,340,924, a change of \$143,698 from the prior year.

The largest portion of net position \$66,087,593 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$2,235,938, represents resources that are subject to external restrictions on how they may be used.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$201,916. Key elements of this change are as follows:

General fund operating results	\$ 521,022
School capital project fund - accrual basis	(330,821)
Nonmajor funds - accrual basis	2,336,076
Excess of depreciation a non budgeted expense over principal maturities	(280,800)
Other post employment benefits liability	(959,675)
Net pension liability	(1,622,631)
Other GAAP accruals	<u>538,745</u>
 Total	 <u>\$ 201,916</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(58,218). Key elements of this change are as follows:

Water/sewer operations	\$ (75,593)
Transfer station operations	<u>17,375</u>
Total	<u>\$ (58,218)</u>

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

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,032,233, a change of \$5,109,670 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 521,022
School capital project fund operating results	3,169,244
Nonmajor funds operating results	<u>1,419,404</u>
 Total	 <u>\$ 5,109,670</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,995,985, while total fund balance was \$4,435,659. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of</u> <u>Total General</u> <u>Fund Expenditures</u>
				Unassigned fund balance Total fund balance
Unassigned fund balance	\$ 2,995,985	\$ 2,835,698	\$ 160,287	11.7%
Total fund balance	\$ 4,435,659	\$ 3,914,637	\$ 521,022	17.3%

The total fund balance of the general fund changed by \$521,022 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 737,075
Budgetary appropriation surplus	943,351
Shortfall of tax collections over budget	(15,065)
Excess of prior year encumbrances to be spent in the current year over current year encumbrances spent in the subsequent year	(440,384)
Use of free cash	(916,421)
Reserve for reduction of excluded debt	(23,784)
Change in stabilization balance	52,773
Other timing differences	<u>183,477</u>
 Total	 <u>\$ 521,022</u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 1,388,065	\$ 1,335,292	\$ 52,773

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,433,087, a change of \$55,726 in comparison to the prior year.

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

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

Differences between the original budget and the final amended budget resulted in an overall change in appropriation and reclassifications of \$492,000. Major reasons for these amendments include:

- \$2,400 – Various General Government lines
- \$137,000 – Public Safety Police/Fire/Ambulance
- \$47,500 – Municipal Building Expenses
- \$(2,500) – Human Services
- \$100,000 – Snow/Ice
- \$190,000 – School
- \$1,400 – Culture and Recreation
- \$11,700 – Insurance
- \$4,500 – Other

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$92,691,339 (net of accumulated depreciation), a change of \$131,813 from the prior year. This investment in capital assets includes land, buildings and system improvements, and machinery and equipment.

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

- \$278,605 of construction in progress on the elementary school
- \$320,731 of construction in progress on the middle school
- \$442,072 of construction in progress on the municipal HVAC system

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$26,964,381, all of which was backed by the full faith and credit of the government.

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

### **REQUESTS FOR INFORMATION**

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

Office of the Finance Director  
Town of Douglas  
29 Depot Street  
Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 7,281,087	\$ 1,769,355	\$ 9,050,442
Investments	1,472,059	-	1,472,059
Receivables, net of allowance for uncollectibles:			
Property taxes	350,590	-	350,590
Excises	101,282	-	101,282
Other assets	-	8,998	8,998
User fees	-	112,220	112,220
Departmental and other	334,262	-	334,262
Intergovernmental	336,956	-	336,956
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	569,376	-	569,376
Capital assets:			
Land and construction in progress	54,550,693	401,122	54,951,815
Other capital assets, net of accumulated depreciation	29,081,420	8,658,104	37,739,524
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,005,139</u>	<u>20,513</u>	<u>1,025,652</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>95,082,864</u>	<u>10,970,312</u>	<u>106,053,176</u>
<b>LIABILITIES</b>			
Current:			
Warrants payable	541,905	33,955	575,860
Accrued liabilities	934,059	27,087	961,146
Tax refunds payable	118,878	-	118,878
Notes payable	600,000	-	600,000
Other current liabilities	170,226	-	170,226
Current portion of long-term liabilities:			
Bonds payable	1,431,988	394,428	1,826,416
Landfill	12,200	-	12,200
Compensated absence	6,705	228	6,933
Bond premium	39,413	-	39,413
Noncurrent:			
Bonds payable, net of current portion	21,820,000	3,317,965	25,137,965
Landfill, net of current portion	48,800	-	48,800
Compensated absence, net of current portion	127,399	4,325	131,724
Bond premium	575,572	-	575,572
Accrued other post employment benefits	7,239,505	170,462	7,409,967
Net pension liability	11,639,851	237,548	11,877,399
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>215,358</u>	<u>4,395</u>	<u>219,753</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>45,521,859</u>	<u>4,190,393</u>	<u>49,712,252</u>
<b>NET POSITION</b>			
Net investment in capital assets	60,740,761	5,346,832	66,087,593
Restricted for:			
Grants and other statutory restrictions	2,126,068	-	2,126,068
Permanent funds:			
Nonexpendable	27,502	-	27,502
Expendable	82,368	-	82,368
Unrestricted	<u>(13,415,694)</u>	<u>1,433,087</u>	<u>(11,982,607)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 49,561,005</u>	<u>\$ 6,779,919</u>	<u>\$ 56,340,924</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 1,833,611	\$ 143,819	\$ 1,483,346	\$ -	\$ (206,446)	\$ -	\$ (206,446)
Public safety	2,520,903	456,758	154,622	-	(1,909,523)	-	(1,909,523)
Education	20,676,914	372,631	12,099,883	319,295	(7,885,105)	-	(7,885,105)
Public works	1,432,885	22,545	79,512	422,015	(908,813)	-	(908,813)
Health and human services	252,238	10,457	10,958	-	(230,823)	-	(230,823)
Culture and recreation	274,569	243	22,099	-	(252,227)	-	(252,227)
Employee benefits	4,524,322	-	-	-	(4,524,322)	-	(4,524,322)
Interest	1,052,274	-	-	-	(1,052,274)	-	(1,052,274)
Intergovernmental	290,636	-	-	-	(290,636)	-	(290,636)
Miscellaneous	42,119	-	-	-	(42,119)	-	(42,119)
Total Governmental Activities	32,900,471	1,006,453	13,850,420	741,310	(17,302,288)	-	(17,302,288)
<b>Business-Type Activities:</b>							
Water/sewer services	1,388,584	1,007,579	-	-	-	(381,005)	(381,005)
Transfer station services	216,727	229,958	-	-	-	13,231	13,231
Total Business-Type Activities	1,605,311	1,237,537	-	-	-	(367,774)	(367,774)
Total	\$ 34,505,782	\$ 2,243,990	\$ 13,850,420	\$ 741,310	(17,302,288)	(367,774)	(17,670,062)
<b>General Revenues and Transfers:</b>							
Property taxes					14,810,591	-	14,810,591
Excises					1,256,894	-	1,256,894
Penalties, interest and other taxes					118,963	-	118,963
Grants and contributions not restricted to specific programs					918,225	-	918,225
Investment income					69,792	3,249	73,041
Miscellaneous					718,482	5,564	724,046
Transfers, net					(388,743)	300,743	(88,000)
Total general revenues and transfers					17,504,204	309,556	17,813,760
Change in Net Position					201,916	(58,218)	143,698
<b>Net Position:</b>							
Beginning of year, as restated					49,359,089	6,838,137	56,197,226
End of year					\$ 49,561,005	\$ 6,779,919	\$ 56,340,924

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

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Capital Project School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,136,268	\$ 437,570	\$ 2,707,249	\$ 7,281,087
Investments	1,388,065	-	83,994	1,472,059
Receivables:				
Property taxes	1,058,287	-	-	1,058,287
Excises	141,685	-	-	141,685
Departmental and other	51,608	-	400,499	452,107
Intergovernmental	50,238	-	286,718	336,956
Other assets	-	-	159,782	159,782
<b>TOTAL ASSETS</b>	<b><u>\$ 6,826,151</u></b>	<b><u>\$ 437,570</u></b>	<b><u>\$ 3,638,242</u></b>	<b><u>\$ 10,901,963</u></b>
<b>LIABILITIES</b>				
Warrants payable	\$ 349,884	\$ 36	\$ 191,985	\$ 541,905
Accrued liabilities	604,906	-	-	604,906
Tax refunds payable	118,878	-	-	118,878
Notes payable	-	600,000	-	600,000
Other liabilities	170,226	-	-	170,226
<b>TOTAL LIABILITIES</b>	<b>1,243,894</b>	<b>600,036</b>	<b>191,985</b>	<b>2,035,915</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>1,146,598</b>	<b>-</b>	<b>687,217</b>	<b>1,833,815</b>
<b>FUND BALANCES</b>				
Nonspendable	-	-	27,502	27,502
Restricted	-	-	2,484,030	2,484,030
Committed	215,944	-	523,102	739,046
Assigned	1,223,730	-	-	1,223,730
Unassigned	<u>2,995,985</u>	<u>(162,466)</u>	<u>(275,594)</u>	<u>2,557,925</u>
<b>TOTAL FUND BALANCES</b>	<b><u>4,435,659</u></b>	<b><u>(162,466)</u></b>	<b><u>2,759,040</u></b>	<b><u>7,032,233</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 6,826,151</u></b>	<b><u>\$ 437,570</u></b>	<b><u>\$ 3,638,242</u></b>	<b><u>\$ 10,901,963</u></b>

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

TOWN OF DOUGLAS, MASSACHUSETTS

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

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ 7,032,233
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	83,632,113
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,377,464
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(329,153)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(31,301,582)
• Net pension liability and deferred outflows, which are not reported in the governmental funds.	<u>(10,850,070)</u>
<b>Net position of governmental activities</b>	<u>\$ 49,561,005</u>

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

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

	<u>General</u>	<u>Capital Project School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 14,760,320	\$ -	\$ -	\$ 14,760,320
Excises	1,227,262	-	3,101	1,230,363
Penalties, interest and other taxes	118,963	-	-	118,963
Charges for services	123,369	-	667,943	791,312
Intergovernmental	9,488,044	319,295	3,947,120	13,754,459
Licenses and permits	170,905	-	-	170,905
Fines and forfeitures	46,895	-	1,115	48,010
Investment income	66,893	-	2,887	69,780
Miscellaneous	<u>154,180</u>	<u>226,211</u>	<u>485,962</u>	<u>866,353</u>
Total Revenues	26,156,831	545,506	5,108,128	31,810,465
<b>Expenditures:</b>				
Current:				
General government	1,741,434	-	-	1,741,434
Public safety	2,301,469	-	658,839	2,960,308
Education	14,319,874	599,336	317,189	15,236,399
Public works	839,847	-	2,766,949	3,606,796
Health and human services	198,646	-	426,655	625,301
Culture and recreation	216,418	-	57,358	273,776
Employee benefits	3,401,398	-	50,354	3,451,752
Miscellaneous	-	460	-	460
Debt service	2,289,954	-	41,658	2,331,612
Intergovernmental	<u>290,636</u>	<u>-</u>	<u>-</u>	<u>290,636</u>
Total Expenditures	<u>25,599,676</u>	<u>599,796</u>	<u>4,319,002</u>	<u>30,518,474</u>
Excess (deficiency) of revenues over expenditures	557,155	(54,290)	789,126	1,291,991
<b>Other Financing Sources (Uses):</b>				
Proceeds of bonds	-	3,105,000	866,988	3,971,988
Bond premium	234,434	-	-	234,434
Transfers in	318,176	118,534	564,367	1,001,077
Transfers out	<u>(588,743)</u>	<u>-</u>	<u>(801,077)</u>	<u>(1,389,820)</u>
Total Other Financing Sources (Uses)	<u>(36,133)</u>	<u>3,223,534</u>	<u>630,278</u>	<u>3,817,679</u>
Change in fund balance	521,022	3,169,244	1,419,404	5,109,670
Fund Equity, at Beginning of Year, as restated	<u>3,914,637</u>	<u>(3,331,710)</u>	<u>1,339,636</u>	<u>1,922,563</u>
Fund Equity, at End of Year	<u>\$ 4,435,659</u>	<u>\$ (162,466)</u>	<u>\$ 2,759,040</u>	<u>\$ 7,032,233</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2016

<b>Net changes in fund balances - total governmental funds</b>	\$ 5,109,670
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• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases	1,870,636
Depreciation	(1,475,800)
• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(543,599)
• 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:	
Issuance of debt	(3,971,988)
Repayments of debt	1,195,000
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	18,896
• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	(1,162,024)
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>(838,875)</u>
<b>Change in net position of governmental activities</b>	<b>\$ <u>201,916</u></b>

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

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 14,696,204	\$ 14,775,385	\$ 14,775,385	\$ -
Excise	967,206	967,206	1,227,262	260,056
Penalties, interest and other taxes	110,000	110,000	118,963	8,963
Charges for services	97,885	97,885	123,369	25,484
Intergovernmental	9,506,210	9,506,210	9,488,044	(18,166)
Licenses and permits	100,600	100,600	170,905	70,305
Fines and forfeits	20,000	20,000	46,895	26,895
Investment income	20,000	20,000	24,924	4,924
Miscellaneous	30,000	30,000	388,614	358,614
Transfers in	193,176	318,176	318,176	-
Use of free cash	628,602	916,421	916,421	-
Other sources	<u>23,784</u>	<u>23,784</u>	<u>23,784</u>	-
Total Revenues and Other Sources	<u>26,393,667</u>	<u>26,885,667</u>	<u>27,622,742</u>	<u>737,075</u>
<b>Expenditures and Other Uses:</b>				
General government	1,762,228	1,812,128	1,567,797	244,331
Public safety	2,202,909	2,339,909	2,282,022	57,887
Education	14,469,852	14,659,852	14,327,217	332,635
Public works	769,015	873,515	838,702	34,813
Health and human services	220,787	218,287	198,892	19,395
Culture and recreation	215,562	216,962	211,518	5,444
Debt service	2,675,647	2,675,647	2,600,697	74,950
Intergovernmental	278,626	278,626	290,636	(12,010)
Employee benefits	3,510,237	3,521,937	3,336,031	185,906
Transfers out	<u>288,804</u>	<u>288,804</u>	<u>288,804</u>	-
Total Expenditures and Other Uses	<u>26,393,667</u>	<u>26,885,667</u>	<u>25,942,316</u>	<u>943,351</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,680,426</u>	<u>\$ 1,680,426</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 1,407,241	\$ 362,114	\$ 1,769,355
Other assets	8,998	-	8,998
User fees, net of allowance for uncollectibles	<u>112,220</u>	<u>-</u>	<u>112,220</u>
Total current assets	1,528,459	362,114	1,890,573
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net			
of accumulated depreciation	<u>8,654,671</u>	<u>3,433</u>	<u>8,658,104</u>
Total noncurrent assets	9,044,055	15,171	9,059,226
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>20,513</u>	<u>-</u>	<u>20,513</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	10,593,027	377,285	10,970,312
<b>LIABILITIES</b>			
Current:			
Warrants payable	18,571	15,384	33,955
Accrued liabilities	27,087	-	27,087
Current portion of long-term liabilities:			
Bonds payable	394,428	-	394,428
Compensated absences	<u>228</u>	<u>-</u>	<u>228</u>
Total current liabilities	440,314	15,384	455,698
Noncurrent:			
Bonds payable, net of current portion	3,317,965	-	3,317,965
Compensated absences	4,325	-	4,325
Accrued other post employment benefits	170,462	-	170,462
Net pension liability	<u>237,548</u>	<u>-</u>	<u>237,548</u>
Total noncurrent liabilities	3,730,300	-	3,730,300
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>4,395</u>	<u>-</u>	<u>4,395</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	4,175,009	15,384	4,190,393
<b>NET POSITION</b>			
Net investment in capital assets	5,331,661	15,171	5,346,832
Unrestricted	<u>1,086,357</u>	<u>346,730</u>	<u>1,433,087</u>
<b>TOTAL NET POSITION</b>	<u>\$ 6,418,018</u>	<u>\$ 361,901</u>	<u>\$ 6,779,919</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 1,007,579	\$ 229,958	\$ 1,237,537
Other	<u>2,133</u>	<u>3,431</u>	<u>5,564</u>
Total Operating Revenues	1,009,712	233,389	1,243,101
<b>Operating Expenses:</b>			
Operating expenses	957,595	216,470	1,174,065
Depreciation	<u>343,240</u>	<u>257</u>	<u>343,497</u>
Total Operating Expenses	<u>1,300,835</u>	<u>216,727</u>	<u>1,517,562</u>
Operating Income (Loss)	(291,123)	16,662	(274,461)
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	2,536	713	3,249
Interest expense	<u>(87,749)</u>	<u>-</u>	<u>(87,749)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(85,213)</u>	<u>713</u>	<u>(84,500)</u>
Income (Loss) Before Transfers	(376,336)	17,375	(358,961)
<b>Transfers:</b>			
Transfers in	310,743	-	310,743
Transfers out	<u>(10,000)</u>	<u>-</u>	<u>(10,000)</u>
Change in Net Position	(75,593)	17,375	(58,218)
Net Position at Beginning of Year, as restated	<u>6,493,611</u>	<u>344,526</u>	<u>6,838,137</u>
Net Position at End of Year	<u>\$ 6,418,018</u>	<u>\$ 361,901</u>	<u>\$ 6,779,919</u>

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

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

	Business-Type Activities		
	Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 975,882	\$ 233,389	\$ 1,209,271
Payments to vendors and employees	<u>(984,808)</u>	<u>(218,563)</u>	<u>(1,203,371)</u>
Net Cash Provided By (Used For) Operating Activities	(8,926)	14,826	5,900
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfers in	310,743	-	310,743
Transfers out	<u>(10,000)</u>	<u>-</u>	<u>(10,000)</u>
Net Cash Provided By Noncapital Financing Activities	300,743	-	300,743
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(80,474)	-	(80,474)
Proceeds from issuance of bonds and notes	125,000	-	125,000
Principal payments on bonds and notes	<u>(390,530)</u>	<u>-</u>	<u>(390,530)</u>
Interest expense	<u>(87,749)</u>	<u>-</u>	<u>(87,749)</u>
Net Cash (Used For) Capital and Related Financing Activities	(433,753)	-	(433,753)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>2,536</u>	<u>713</u>	<u>3,249</u>
Net Cash Provided By Investing Activities	<u>2,536</u>	<u>713</u>	<u>3,249</u>
Net Change in Cash and Short-Term Investments	(139,400)	15,539	(123,861)
Cash and Short-Term Investments, Beginning of Year	<u>1,546,641</u>	<u>346,575</u>	<u>1,893,216</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,407,241</u>	<u>\$ 362,114</u>	<u>\$ 1,769,355</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>			
Operating income	\$ (291,123)	\$ 16,662	\$ (274,461)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	343,240	257	343,497
Changes in assets and liabilities:			
User fees	(33,830)	-	(33,830)
Other assets	(17,700)	-	(17,700)
Warrants and accounts payable	(49,201)	(2,093)	(51,294)
Accrued liabilities	(15,266)	-	(15,266)
Accrued other post employment benefits	19,493	-	19,493
Net pension liability	33,115	-	33,115
Other liabilities	<u>2,346</u>	<u>-</u>	<u>2,346</u>
Net Cash Provided By Operating Activities	<u>\$ (8,926)</u>	<u>\$ 14,826</u>	<u>\$ 5,900</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Private Purpose Trust <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>			
Cash and short-term investments	\$ 45,212	\$ -	\$ 212,998
Investments	54,467	225,227	-
Accounts receivable	<u>-</u>	<u>-</u>	9,454
Total Assets	99,679	225,227	222,452
<b><u>LIABILITIES AND NET POSITION</u></b>			
Accounts payable	-	-	29,379
Deferred revenue	-	-	9,454
Other liabilities	<u>-</u>	<u>-</u>	<u>183,619</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>222,452</u>
<b><u>NET POSITION</u></b>			
Total net position held in trust	<u>\$ 99,679</u>	<u>\$ 225,227</u>	<u>\$ -</u>

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

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

	Private Purpose Trust Funds	Other Post-Employment Benefits Trust Fund
<b>Additions:</b>		
Interest income	\$ 1,842	\$ 8,871
Transfers in	- <hr/>	88,000 <hr/>
Total additions	1,842	96,871
<b>Deductions:</b>		
Education	500	- <hr/>
Total deductions	500 <hr/>	- <hr/>
Net increase	1,342	96,871
<b>Net position:</b>		
Beginning of year	98,337	128,356 <hr/>
End of year	\$ 99,679 <hr/>	\$ 225,227 <hr/>

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

## TOWN OF DOUGLAS, MASSACHUSETTS

### Notes to Financial Statements

#### **1. Summary of Significant Accounting Policies**

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

##### **A. Reporting Entity**

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

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

###### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

###### **Fund Financial Statements**

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

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *school construction capital project fund* accounts for the operations pertaining to the construction of the Douglas schools.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with

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

The government reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

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

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

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

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

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$5,501.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

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

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

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

*H. Compensated Absences*

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

*I. Long-Term Obligations*

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

*J. Fund Equity*

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

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

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

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

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

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

#### ***K. Use of Estimates***

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

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

### **A. Budgetary Information**

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

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

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

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

### **B. Budgetary Basis**

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

### **C. Budget/GAAP Reconciliation**

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 26,156,831	\$ 25,599,676
Other financing sources/uses (GAAP basis)	552,610	588,743
Subtotal (GAAP Basis)	26,709,441	26,188,419
Adjust tax revenue to accrual basis	15,065	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(817,708)
To book current year appropriation carryforwards	-	377,324
To record use of free cash	916,421	-
Reserve for reduction of excluded debt	23,784	-
To remove unbudgeted stabilization fund	(41,969)	10,804
To record timing differences	-	183,477
Budgetary basis	<u>\$ 27,622,742</u>	<u>\$ 25,942,316</u>

#### *D. Deficit Fund Equity*

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

State 911	\$ (21,271)
911 training	(12,734)
MA Office of Travel	(82,166)
Sustainable materials	(750)
Title I	(6,192)
Teacher Quality	(317)
DEA task	(1,774)
FY15 EMPG	(2,650)
GHSB grant	(2,040)
OCDETF	(938)
Chapter 90	(144,762)
Elementary/Middle School	<u>(162,466)</u>
Total	\$ <u>(438,060)</u>

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

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

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

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

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

As of June 30, 2016, none of the Town's bank balances of \$10,119,939 was exposed to custodial credit risk as uninsured or uncollateralized.

#### 4. Investments

##### A. Credit Risk

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

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

Investment Type	Value	Fair	Minimum Legal Rating	Exempt From Disclosure	Aaa	Aa+	Rating as of Year End	
							A	BBB+
Certificates of deposits	\$ 397			\$ -	\$ 397	\$ -	\$ -	\$ -
Corporate bonds	241			-	-	25	86	130
Corporate equities	317	N/A		317	-	-	-	-
Mutual funds	265	N/A		265	-	-	-	-
Federal agency securities	532				532	-	-	-
Total investments	\$ 1,752			\$ 582	\$ 929	\$ 25	\$ 86	\$ 130

##### B. Custodial Credit Risk

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

### C. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Investment Maturity</u> <u>(in Years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>N/A</u>
Certificates of deposit	\$ 397	\$ 397	\$ -
Corporate bonds	241	-	241
Corporate equities	317	-	317
Mutual funds	265	265	-
Federal agency securities	<u>532</u>	<u>532</u>	<u>-</u>
Total	<u>\$ 1,752</u>	<u>\$ 1,194</u>	<u>\$ 558</u>

### D. Foreign Currency Risk

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

### E. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Town's investments are classified as Level 1, except certificates of deposit which are reported at cost.

## **5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are

not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

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

Real Estate	
2016	\$ 377
2015	4
2014	4
2012	2
Prior	<u>13</u>
	400
Personal Property	
2016	7
2015	5
2014	1
2013	1
Prior	<u>11</u>
	25
Tax Liens	
	<u>633</u>
Total	
	\$ <u>1,058</u>

## **6. Allowance for Doubtful Accounts**

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

<u>Governmental</u>	
Property taxes	\$ 138
Excises	\$ 40
Other	\$ 278

## **7. Intergovernmental Receivables**

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

## 8. Interfund Fund Transfers

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

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 318,176	\$ 588,743
Capital Project School Construction	118,534	-
Nonmajor Funds:		
Special Revenue Funds	364,367	799,091
Capital Project Funds	200,000	1,986
Subtotal Nonmajor Funds	564,367	801,077
<u>Business-Type Funds:</u>		
Water/Sewer Fund	310,743	10,000
Subtotal Business-Type Funds:	310,743	10,000
<u>Fiduciary Funds:</u>		
Other Post-Employment Benefits Trust Fund	88,000	-
Subtotal Fiduciary Funds:	88,000	-
Grand Total	\$ 1,281,286	\$ 1,399,820

## 9. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 32,101	\$ 8	\$ -	\$ 32,109
Machinery, equipment, and furnishings	7,115	400	-	7,515
Infrastructure	10,483	282	-	10,765
Total capital assets, being depreciated	49,699	690	-	50,389
Less accumulated depreciation for:				
Buildings and improvements	(12,548)	(819)	-	(13,367)
Machinery, equipment, and furnishings	(5,865)	(273)	-	(6,138)
Infrastructure	(1,419)	(384)	-	(1,803)
Total accumulated depreciation	(19,832)	(1,476)	-	(21,308)
Total capital assets, being depreciated, net	29,867	(786)	-	29,081
Capital assets, not being depreciated:				
Land	6,053	140	-	6,193
Construction in progress	47,317	1,041	-	48,358
Total capital assets, not being depreciated	53,370	1,181	-	54,551
Governmental activities capital assets, net	\$ 83,237	\$ 395	\$ -	\$ 83,632

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,057	\$ -	\$ -	\$ 8,057
Machinery, equipment, and furnishings	147	80	-	227
Infrastructure	<u>5,559</u>	<u>-</u>	<u>-</u>	<u>5,559</u>
Total capital assets, being depreciated	13,763	80	-	13,843
Less accumulated depreciation for:				
Buildings and improvements	(1,886)	(191)	-	(2,077)
Machinery, equipment, and furnishings	(69)	(19)	-	(88)
Infrastructure	<u>(2,887)</u>	<u>(133)</u>	<u>-</u>	<u>(3,020)</u>
Total accumulated depreciation	<u>(4,842)</u>	<u>(343)</u>	<u>-</u>	<u>(5,185)</u>
Total capital assets, being depreciated, net	8,921	(263)	-	8,658
Capital assets, not being depreciated:				
Land	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Total capital assets, not being depreciated	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Business-type activities capital assets, net	<u>\$ 9,322</u>	<u>\$ (263)</u>	<u>\$ -</u>	<u>\$ 9,059</u>

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

Governmental Activities:	
General government	\$ 43
Public safety	198
Education	765
Public works	461
Culture and recreation	9
Total depreciation expense - governmental activities	<u>\$ 1,476</u>
Business-Type Activities:	
Water/sewer	\$ 343
Total depreciation expense - business-type activities	<u>\$ 343</u>

## 10. Deferred Outflows of Resources

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

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

	Entity-wide	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Net difference between projected and actual pension investment earnings	\$ 574,777	\$ 11,730
Changes in assumptions	<u>430,362</u>	<u>8,783</u>
Total	<u><u>\$ 1,005,139</u></u>	<u><u>\$ 20,513</u></u>

## **11. Warrants Payable**

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

## **12. Tax Refunds Payable**

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

## **13. Anticipation Notes Payable**

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/16</u>
School construction	0.70%	05/09/16	12/09/16	\$ 600,000

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

	<u>Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
School construction	\$ 1,400,000	\$ -	\$ (1,400,000)	\$ -
School equipment and building renovations	3,778,384	-	(3,778,384)	-
School construction	-	1,400,000	(1,400,000)	-
School equipment and building renovations	-	3,778,384	(3,778,384)	-
School construction	-	600,000	-	600,000
Total	<u><u>\$ 5,178,384</u></u>	<u><u>\$ 5,778,384</u></u>	<u><u>\$ (10,356,768)</u></u>	<u><u>\$ 600,000</u></u>

## 14. Long-Term Debt

### A. General Obligation Bonds

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

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/16</u>
<u>Governmental Activities:</u>			
Land	07/15/18	4.10%	\$ 45,000
Land	12/15/21	4.36%	300,000
Elementary and middle school	01/15/32	3.93%	16,585,000
Refunding	06/01/22	1.59%	2,350,000
School building and equipment	06/30/31	3.00%	<u>3,971,988</u>
Total Governmental Activities:			\$ <u>23,251,988</u>
<u>Business-Type Activities:</u>			
Water tank refunding	01/15/17	1.78%	\$ 35,000
Water refunding	01/15/21	2.13%	45,000
Water refunding	01/15/20	2.41%	20,000
Manchaug sewer improvement	01/15/19	2.13%	30,000
Sewer plant	02/01/25	2.00%	3,294,375
Sewer plant	07/15/24	2.00%	163,018
Water	06/30/31	3.00%	<u>125,000</u>
Total Business-Type Activities:			\$ <u>3,712,393</u>

### B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,431,988	\$ 903,954	\$ 2,335,942
2018	1,485,000	849,654	2,334,654
2019	1,540,000	799,773	2,339,773
2020	1,580,000	736,400	2,316,400
2021	1,645,000	668,500	2,313,500
2022 - 2026	6,960,000	2,515,900	9,475,900
2027 - 2031	7,225,000	1,234,650	8,459,650
2032	<u>1,385,000</u>	<u>62,325</u>	<u>1,447,325</u>
Total	\$ <u>23,251,988</u>	\$ <u>7,771,156</u>	\$ <u>31,023,144</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 394,428	\$ 85,111	\$ 479,539
2018	372,617	69,117	441,734
2019	385,814	55,133	440,947
2020	389,016	40,869	429,885
2021	392,227	26,730	418,957
2022 - 2025	1,728,291	32,521	1,760,812
2026 - 2031	<u>50,000</u>	<u>4,200</u>	<u>54,200</u>
<b>Total</b>	<b>\$ 3,712,393</b>	<b>\$ 313,681</b>	<b>\$ 4,026,074</b>

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

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

	Total Balance 7/1/15			Total Balance 6/30/16		Less Current Portion	Equals Long-Term Portion 6/30/16
<b>Governmental Activities</b>							
Bonds payable	\$ 20,475	\$ 3,972	\$ (1,195)	\$ 23,252	\$ (1,432)	\$ 21,820	
Other:							
Landfill closure	73	-	(12)	61	(12)	49	
Compensated absences	130	4	-	134	(7)	127	
Bond premium	404	234	(23)	615	(39)	576	
Accrued other post-employment benefits	6,280	960	-	7,240	-	7,240	
Net pension liability	<u>10,017</u>	<u>1,623</u>	<u>-</u>	<u>11,640</u>	<u>-</u>	<u>11,640</u>	
<b>Totals</b>	<b>\$ 37,379</b>	<b>\$ 6,793</b>	<b>\$ (1,230)</b>	<b>\$ 42,942</b>	<b>\$ (1,490)</b>	<b>\$ 41,452</b>	
<b>Business-Type Activities</b>							
Bonds payable	\$ 3,978	\$ 125	\$ (391)	\$ 3,712	\$ (394)	\$ 3,318	
Compensated absences	2	2	-	4	-	4	
Accrued other post-employment benefits	151	19	-	170	-	170	
Net pension liability	<u>205</u>	<u>33</u>	<u>-</u>	<u>238</u>	<u>-</u>	<u>238</u>	
<b>Totals</b>	<b>\$ 4,336</b>	<b>\$ 179</b>	<b>\$ (391)</b>	<b>\$ 4,124</b>	<b>\$ (394)</b>	<b>\$ 3,730</b>	

## **15. Landfill Closure and Postclosure Care Costs**

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

The Town reported \$61,000 as landfill closure and postclosure care liability at June 30, 2016. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## **16. Deferred Inflows of Resources**

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

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

	Entity-wide Basis		Fund Basis	
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor
Unavailable revenues	\$ -	\$ -	\$ 1,146,598	\$ 687,217
Pension related:				
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 215,358	\$ 4,395	\$ -	\$ -

## **17. Restricted Net Position**

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

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

## **18. Governmental Funds - Balances**

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and various special revenue funds.

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

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

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

	General Fund	Capital Project School Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Nonexpendable permanent funds	\$ -	\$ -	\$ 27,502	\$ 27,502
Total Nonspendable	-	-	27,502	27,502
<b>Restricted</b>				
Special revenue funds	-	-	2,401,662	2,401,662
Expendable permanent funds	-	-	82,368	82,368
Total Restricted	-	-	2,484,030	2,484,030
<b>Committed</b>				
Reserve for continuing appropriations				
General government	131,340	-	-	131,340
Public safety	9,262	-	-	9,262
Public works	399	-	-	399
Health and human services	4,900	-	-	4,900
Employee benefits	70,043	-	-	70,043
Capital project funds	-	-	523,102	523,102
Total Committed	215,944	-	523,102	739,046

(continued)

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	General Fund	Capital Project School Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assigned</b>				
Encumbrances				
General government	18,137	-	-	18,137
Public safety	1,108	-	-	1,108
Education	17,733	-	-	17,733
Public works	204	-	-	204
Culture and recreation	48	-	-	48
Health and human services	199	-	-	199
Reserve for debt exclusion	591,201	-	-	591,201
Reserved for expenditures	595,000	-	-	595,000
Other - petty cash	100	-	-	100
Total Assigned	1,223,730	-	-	1,223,730
<b>Unassigned</b>				
General operating stabilization	1,388,065	-	-	1,388,065
General fund	1,607,920	(162,466)	(275,594)	1,169,860
Total Unassigned	2,995,985	(162,466)	(275,594)	2,557,925
Total Fund Balance	\$ 4,435,659	\$ (162,466)	\$ 2,759,040	\$ 7,032,233

## **19. General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

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

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

GAAP basis balance	\$ 2,995,985
Stabilization fund	(1,388,065)
Tax refund estimate	<u>118,878</u>
Statutory (UMAS) Balance	\$ <u>1,726,798</u>

## **20. Commitments and Contingencies**

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

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

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

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

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

#### **A. Plan Description**

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2014, the actuarial valuation date, approximately 97 retirees and 254 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

#### **B. Benefits Provided**

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

#### **C. Funding Policy**

Retirees contribute 50% of the cost of the health plan and life insurance, as determined by the Town. The Town contributes the remainder of the health plan and life insurance costs toward \$2,000 coverage on a pay-as-you-go basis.

**D. Annual OPEB Costs and Net OPEB Obligation**

The Town's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2014.

Annual Required Contribution (ARC)	\$ 1,349,513
Interest on net OPEB obligation	257,232
Adjustment to ARC	<u>(402,577)</u>
Annual OPEB cost	1,204,168
Contributions made	<u>(225,000)</u>
Increase in net OPEB obligation	979,168
Net OPEB obligation - beginning of year	<u>6,430,799</u>
Net OPEB obligation - end of year	\$ <u>7,409,967</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed		Net OPEB Obligation
		Cost Contributed	Net OPEB Obligation	
2016	\$ 1,204,168	19%	\$ 7,409,967	
2015	\$ 1,181,011	18%	\$ 6,430,799	
2014	\$ 1,298,697	27%	\$ 5,462,893	

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

**E. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation was as follows:

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

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

#### ***F. Actuarial Methods and Assumptions***

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

In the July 1, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 6%, which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

### **22. Retirement System**

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

#### ***A. Plan Description***

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Worcester Contributory Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan pro-

vides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501 or from the System's website at [www.worcesterregionalretirement.org](http://www.worcesterregionalretirement.org).

### Participant Retirement Benefits

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 those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they

generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

### Participants Refunds

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

### Participants Contributions

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

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

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

### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$752,764, which was equal to its annual required contribution.

**B. Summary of Significant Accounting Policies**

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

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

At June 30, 2016, the Town reported a liability of \$11,877,399 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 December 31, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Town's proportion was 1.673328 percent.

At June 30, 2016, the Town's proportion was 1.673328 percent, which was a decrease of (.04401) percent from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,608,759. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 439,145	\$ -
Net difference between projected and actual earnings on pension plan investments	586,507	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	219,753
Total	<u><u>\$ 1,025,652</u></u>	<u><u>\$ 219,753</u></u>

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

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 235,538	\$ 44,305
2017	235,538	44,305
2018	235,538	44,305
2019	234,041	44,305
Thereafter	<u>84,997</u>	<u>42,533</u>
Total	<u><u>\$ 1,025,652</u></u>	<u><u>\$ 219,753</u></u>

*D. Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of January 1, 2014, rolled forward to the measurement date of December 31, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3% of the first \$14,000
Salary increases	3% per year, including longevity
Investment rate of return	7.75%

Mortality rates were based on the RP-2000 Mortality Table projected to 2014 with a Scale AA. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward 2 years.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding an expected inflation rate. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	8.02%
Fixed income	23.00%	5.09%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timber/Natural resources	4.00%	7.07%
Hedge funds	9.00%	6.50%
Other	<u>4.00%</u>	<u>6.18%</u>
Total	<u><u>100.00%</u></u>	

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 14,300,557	\$ 11,877,399	\$ 9,584,837

*G. Pension Plan Fiduciary Net Position*

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

## **23. Massachusetts Teachers' Retirement System (MTRS)**

### **A. Plan Description**

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

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

### **B. Benefits Provided**

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who

contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

**C. Contributions**

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

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

**D. Actuarial Assumptions**

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

- (a) 7.50% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB with a base year of 2014 (gender-distinct).
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by

the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

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

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### *F. Sensitivity Analysis*

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

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

**G. Special Funding Situation**

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

**H. Town Proportions**

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$27,423,140 and \$2,224,261 respectively, based on a proportionate share of .133839%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

**24. Risk Management**

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

**25. Beginning Fund Balance Reclassification**

The Town's major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

	<u>Fund Equity</u>		<u>Fund Equity</u>
	<u>6/30/15</u>		<u>6/30/15</u>
	<u>(as previously</u>		<u>(as restated)</u>
Governmental activities	\$ 49,475,539	\$ (116,450)	\$ 49,359,089
Business-type activities	<u>6,721,687</u>	<u>116,450</u>	<u>6,838,137</u>
Total	<u>\$ 56,197,226</u>	<u>\$ -</u>	<u>\$ 56,197,226</u>

Fund Basis Financial Statements:

	Fund Equity 6/30/15 (as previously <u>reported</u> )	Reclassification	Fund Equity 6/30/15 (as restated)
Nonmajor funds	\$ 1,456,086	\$ (116,450)	\$ 1,339,636
Water/sewer enterprise fund	<u>6,377,161</u>	<u>116,450</u>	<u>6,493,611</u>
Total	<u>\$ 7,833,247</u>	<u>\$ -</u>	<u>\$ 7,833,247</u>

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

June 30, 2016

(Unaudited)

**Other Post-Employment Benefits**

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Actuarial Valuation Date	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age			Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent-age of Covered Payroll <u>[(b-a)/c]</u>
7/1/2014	\$ -	\$ 10,890,813		\$ 10,890,813		0%	\$ 15,205,579	72%
7/1/2012	\$ -	\$ 11,261,317		\$ 11,261,317		0%	\$ 13,503,832	83%
7/1/2010	\$ -	\$ 10,786,564		\$ 10,786,564		0%	\$ 13,965,267	77%
7/1/2008	\$ -	\$ 11,385,000		\$ 11,385,000		0%	\$ 17,172,000	66%

See Independent Auditors' Report.

**TOWN OF DOUGLAS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**  
**(Unaudited)**

Worcester County Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	1.673328%	\$11,877,399	\$ 5,729,138	207.32%	44.52%
June 30, 2015	1.717729%	\$10,221,653	\$ 5,508,787	185.55%	47.94%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	1.33839%	\$ -	\$ 27,423,140	\$ 27,423,140	\$ 8,772,387	0.00%
June 30, 2015	1.42008%	\$ -	\$ 22,574,170	\$ 22,574,170	\$ 8,707,212	0.00%

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

See Independent Auditors' Report.

**TOWN OF DOUGLAS, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016  
(Unaudited)**

Worcester Contributory Retirement System

<u>Fiscal Year</u>	Contributions in Relation to the		<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>			
June 30, 2016	\$ 752,764	\$ 752,764	\$ -	\$ 5,729,138	13.14%
June 30, 2015	\$ 678,830	\$ 678,830	\$ -	\$ 5,508,787	12.32%

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

See Independent Auditors' Report.