

TOWN OF HANOVER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

Town of Hanover, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hanover, 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 Hanover, 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 Hanover, 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 March 22, 2017 on our consideration of the Town of Hanover, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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

Melanson Heath

March 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations, which is considered to be a major fund.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$37,443,698 (i.e., net position), a change of \$253,362 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$21,783,604, a change of \$(927,848) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,391,472, a change of \$590,892 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$46,126,904, a change of \$(5,175,567) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 31,376	\$ 33,755	\$ 2,076	\$ 2,681	\$ 33,452	\$ 36,436
Deferred outflows	3,192	1,152	168	61	3,360	1,213
Capital assets	<u>98,288</u>	<u>98,459</u>	<u>9,778</u>	<u>9,697</u>	<u>108,066</u>	<u>108,156</u>
Total assets and deferred outflows	132,856	133,366	12,022	12,439	144,878	145,805
Current liabilities	8,277	9,306	598	568	8,875	9,874
Noncurrent liabilities	92,786	93,246	5,001	5,456	97,787	98,702
Deferred inflows	<u>552</u>	<u>39</u>	<u>221</u>	<u>-</u>	<u>773</u>	<u>39</u>
Total liabilities	101,615	102,591	5,820	6,024	107,435	108,615
Net position:						
Net investment in capital assets	54,949	52,004	6,890	6,139	61,839	58,143
Restricted	10,582	9,853	-	-	10,582	9,853
Unrestricted	<u>(34,290)</u>	<u>(31,082)</u>	<u>(688)</u>	<u>276</u>	<u>(34,978)</u>	<u>(30,806)</u>
Total net position	<u>\$ 31,241</u>	<u>\$ 30,775</u>	<u>\$ 6,202</u>	<u>\$ 6,415</u>	<u>\$ 37,443</u>	<u>\$ 37,190</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,041	\$ 4,612	\$ 3,690	\$ 3,409	\$ 8,731	\$ 8,021
Operating grants and contributions	13,945	11,850	-	-	13,945	11,850
Capital grants and contributions	1,307	2,523	-	-	1,307	2,523
General revenues:						
Property taxes	42,327	39,420	-	-	42,327	39,420
Excises	2,723	2,520	-	-	2,723	2,520
Penalties and interest on taxes	525	526	-	-	525	526
Grants and contributions not restricted to specific programs	2,182	2,135	-	2	2,182	2,137
Investment income	183	82	-	-	183	82
Other	335	357	-	-	335	357
	<u>68,568</u>	<u>64,025</u>	<u>3,690</u>	<u>3,411</u>	<u>72,258</u>	<u>67,436</u>
Total revenues						
Expenses:						
General government	3,175	3,193	-	-	3,175	3,193
Public safety	7,041	7,508	-	-	7,041	7,508
Education	39,869	36,128	-	-	39,869	36,128
Public works	3,672	4,512	-	-	3,672	4,512
Human services	691	586	-	-	691	586
Culture and recreation	1,239	1,205	-	-	1,239	1,205
Employee benefits	9,674	8,011	-	-	9,674	8,011
Interest on long-term debt	1,876	1,793	-	-	1,876	1,793
Intergovernmental	584	517	-	-	584	517
Miscellaneous	211	287	-	-	211	287
Water	-	-	3,970	3,131	3,970	3,131
	<u>68,032</u>	<u>63,740</u>	<u>3,970</u>	<u>3,131</u>	<u>72,002</u>	<u>66,871</u>
Total expenses						
Change in net position before transfers	536	285	(280)	280	256	565
Transfers in (out)	<u>(70)</u>	<u>359</u>	<u>67</u>	<u>(359)</u>	<u>(3)</u>	<u>-</u>
Change in net position	466	644	(213)	(79)	253	565
Net position - beginning of year, as restated	<u>30,775</u>	<u>30,131</u>	<u>6,415</u>	<u>6,494</u>	<u>37,190</u>	<u>36,625</u>
Net position - end of year	<u>\$ 31,241</u>	<u>\$ 30,775</u>	<u>\$ 6,202</u>	<u>\$ 6,415</u>	<u>\$ 37,443</u>	<u>\$ 37,190</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$37,443,698, a change of \$253,362 from the prior year.

The largest portion of net position, \$61,838,990, 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, \$10,582,650, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit balance of \$(34,977,942) caused primarily by accrued but unfunded other post-employment benefits (see Note 19) and the net pension liability (see Note 20).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$466,297. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (181,221)
School capital project fund - accrual basis	(416,075)
Community preservation fund - operating results	464,883
Ambulance fund - operating results	(55,415)
Nonmajor funds - accrual basis	734,632
Principal debt service in excess of depreciation expense	665,512
MSBA receipts	24,941
Change in accrued other post-employment benefits	(2,621,012)
Increase in bond premiums	305,139
Other	<u>1,544,913</u>
Total	<u>\$ 466,297</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(212,935) from water operations.

Water operations	<u>\$ (212,935)</u>
Total	<u>\$ (212,935)</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$21,783,604, a change of \$(927,848) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (181,221)
School capital project operations	(391,134)
Community preservation revenues over expenditures	464,883
Ambulance fund revenues over expenditures	(55,415)
Nonmajor funds revenues over expenditures	<u>(764,961)</u>
Total	<u>\$ (927,848)</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 \$5,391,472, while total fund balance was \$11,190,191. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,391,472	\$ 4,800,580	\$ 590,892	10%
Total fund balance	\$ 11,190,191	\$ 11,371,412	\$ (181,221)	20%

The total fund balance of the general fund changed by \$(181,221) during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 1,235,744
Appropriation turnbacks by departments	522,681
Excess property tax collections	78,860
Prior year encumbrances to be spent in the current year over current year encumbrances to be spent in the subsequent year	(277,065)
Use of free cash as a funding source	(2,197,450)
Use of overlay surplus as a funding source	(500,000)
Other uses	111,526
Change in stabilization	915,253
Other	<u>(70,770)</u>
Total	<u>\$ (181,221)</u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 2,107,597	\$ 1,869,990	\$ 237,607
Capital stabilization	503,085	200,404	302,681
OPEB stabilization	<u>1,298,302</u>	<u>923,337</u>	<u>374,965</u>
Total	<u>\$ 3,908,984</u>	<u>\$ 2,993,731</u>	<u>\$ 915,253</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$(687,347), a change of \$(963,162) in comparison to the prior year, as restated.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$695,350. Major reasons for these amendments include:

- \$5,000 for general government appropriations.
- \$15,350 for public safety appropriations.
- \$175,000 for public works appropriations.
- \$200,000 transfer to general stabilization.
- \$300,000 transfer to capital stabilization.

These supplemental appropriations were funded by \$195,350 from free cash and \$500,000 from overlay surplus.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$108,066,019 (net of accumulated depreciation), a change of \$(89,333) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- \$1,584,994 increase in vehicles relating to various cruiser, truck, and backhoe purchases

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$46,126,904, 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 Financial Statements.

REQUESTS FOR INFORMATION

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

Office of Finance Director
Town of Hanover, Massachusetts
550 Hanover Street
Hanover, MA 02339

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 10,978,722	\$ 690,724	\$ 11,669,446
Investments	12,717,465	-	12,717,465
Receivables, net of allowance for uncollectibles:			
Property taxes	581,392	-	581,392
Excises	237,711	-	237,711
User fees	-	1,386,221	1,386,221
Departmental and other	319,305	-	319,305
Intergovernmental	1,317,670	-	1,317,670
Other assets	197,870	-	197,870
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	534,363	-	534,363
Intergovernmental	4,461,436	-	4,461,436
Capital Assets:			
Land and construction in progress	10,212,183	827,766	11,039,949
Other assets, net of accumulated depreciation	88,076,368	8,949,702	97,026,070
DEFERRED OUTFLOWS OF RESOURCES	<u>3,191,840</u>	<u>167,992</u>	<u>3,359,832</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	132,856,325	12,022,405	144,878,730
LIABILITIES			
Current:			
Warrants payable	884,456	115,055	999,511
Accrued liabilities	311,420	7,367	318,787
Tax refunds payable	40,650	-	40,650
Notes payable	1,394,159	-	1,394,159
Other current liabilities	1,104,529	-	1,104,529
Current portion of long-term liabilities:			
Bonds payable	4,075,568	470,000	4,545,568
Compensated absence	147,375	5,045	152,420
Bond premium	228,275	-	228,275
Noncurrent:			
Bonds payable, net of current portion	39,215,036	2,366,300	41,581,336
Compensated absence	2,800,118	95,854	2,895,972
Bond premium	2,085,925	-	2,085,925
Accrued other post-employment benefits	21,581,006	1,113,397	22,694,403
Net pension liability	27,103,921	1,426,523	28,530,444
DEFERRED INFLOWS OF RESOURCES	<u>642,453</u>	<u>220,600</u>	<u>863,053</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	101,614,891	5,820,141	107,435,032
NET POSITION			
Net investment in capital assets	54,949,379	6,889,611	61,838,990
Restricted for:			
Grants and other statutory restrictions	10,324,680	-	10,324,680
Permanent funds:			
Nonexpendable	166,460	-	166,460
Expendable	91,510	-	91,510
Unrestricted	<u>(34,290,595)</u>	<u>(687,347)</u>	<u>(34,977,942)</u>
TOTAL NET POSITION	<u>\$ 31,241,434</u>	<u>\$ 6,202,264</u>	<u>\$ 37,443,698</u>

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

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,174,696	\$ 428,293	\$ 537,409	\$ -	\$ (2,208,994)	\$ -	\$ (2,208,994)
Public safety	7,040,828	1,533,143	173,428	-	(5,334,257)	-	(5,334,257)
Education	39,869,130	2,562,117	13,004,604	25,242	(24,277,167)	-	(24,277,167)
Public works	3,671,741	170,552	-	1,281,468	(2,219,721)	-	(2,219,721)
Health and human services	690,974	97,332	133,655	-	(459,987)	-	(459,987)
Culture and recreation	1,238,793	249,800	95,945	-	(893,048)	-	(893,048)
Employee benefits	9,673,975	-	-	-	(9,673,975)	-	(9,673,975)
Interest	1,875,989	-	-	-	(1,875,989)	-	(1,875,989)
Intergovernmental	583,791	-	-	-	(583,791)	-	(583,791)
Miscellaneous	211,021	-	-	-	(211,021)	-	(211,021)
Total Governmental Activities	68,030,938	5,041,237	13,945,041	1,306,710	(47,737,950)	-	(47,737,950)
Business-Type Activities:							
Water services	3,970,005	3,689,820	-	-	-	(280,185)	(280,185)
Total Business-Type Activities	3,970,005	3,689,820	-	-	-	(280,185)	(280,185)
Total	\$ 72,000,943	\$ 8,731,057	\$ 13,945,041	\$ 1,306,710	(47,737,950)	(280,185)	(48,018,135)
General Revenues and Transfers:							
Property taxes					42,326,493	-	42,326,493
Excises					2,723,310	-	2,723,310
Penalties, interest and other taxes					524,807	-	524,807
Grants and contributions not restricted to specific programs					2,181,500	-	2,181,500
Investment income					183,241	-	183,241
Miscellaneous					334,746	-	334,746
Transfers, net					(69,850)	67,250	(2,600)
Total general revenues and transfers					48,204,247	67,250	48,271,497
Change in Net Position					466,297	(212,935)	253,362
Net Position:							
Beginning of year, as restated					30,775,137	6,415,199	37,190,336
End of year					\$ 31,241,434	\$ 6,202,264	\$ 37,443,698

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

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	School Capital Project Fund	Community Preservation Fund	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and short-term investments	\$ 896,555	\$ 1,373,355	\$ 3,403,505	\$ 1,735,924	\$ 3,569,383	\$ 10,978,722
Investments	12,027,081	-	-	-	690,384	12,717,465
Receivables:						
Property taxes	1,313,492	-	-	-	-	1,313,492
Excises	296,530	-	-	-	701	297,231
Departmental and other	-	-	11,229	1,266,452	80,000	1,357,681
Due from other funds	30,000	-	-	-	-	30,000
Due from other governments	-	-	-	-	1,317,670	1,317,670
Other assets	-	-	-	-	197,870	197,870
TOTAL ASSETS	\$ 14,563,658	\$ 1,373,355	\$ 3,414,734	\$ 3,002,376	\$ 5,856,008	\$ 28,210,131
LIABILITIES						
Warrants payable	\$ 731,805	\$ 128	\$ 15,291	\$ -	\$ 137,232	\$ 884,456
Due to other funds	-	-	-	-	30,000	30,000
Tax refunds payable	40,650	-	-	-	-	40,650
Notes payable	-	475,059	-	-	919,100	1,394,159
Other liabilities	1,074,529	-	-	-	-	1,074,529
TOTAL LIABILITIES	1,846,984	475,187	15,291	-	1,086,332	3,423,794
DEFERRED INFLOWS OF RESOURCES	1,526,483	-	11,227	1,266,452	198,571	3,002,733
FUND BALANCES						
Nonspendable	-	-	-	-	166,460	166,460
Restricted	1,562,764	1,302,435	-	1,735,924	5,621,839	10,222,962
Committed	2,393,270	-	3,388,216	-	-	5,781,486
Assigned	1,842,685	-	-	-	-	1,842,685
Unassigned	5,391,472	(404,267)	-	-	(1,217,194)	3,770,011
TOTAL FUND BALANCES	11,190,191	898,168	3,388,216	1,735,924	4,571,105	21,783,604
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 14,563,658	\$ 1,373,355	\$ 3,414,734	\$ 3,002,376	\$ 5,856,008	\$ 28,210,131

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

TOWN OF HANOVER, MASSACHUSETTS

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

JUNE 30, 2016

Total governmental fund balances	\$ 21,783,604
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	98,288,551
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,617,045
<ul style="list-style-type: none">• Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	4,461,436
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(311,420)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(70,554,603)
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>(24,043,179)</u>
Net position of governmental activities	<u><u>\$ 31,241,434</u></u>

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

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

	General Fund	School Capital Project Fund	Community Preservation Fund	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 41,291,327	\$ -	\$ -	\$ -	\$ 952,314	\$ 42,243,641
Excises	2,595,258	-	-	-	22,660	2,617,918
Penalties, interest, and other taxes	524,727	-	-	-	80	524,807
Charges for services	354,995	-	952,314	994,880	1,923,302	4,225,491
Licenses and permits	677,916	-	-	-	-	677,916
Fines and forfeitures	117,238	-	-	-	-	117,238
Intergovernmental	9,724,996	24,941	318,073	-	2,849,406	12,917,416
Investment income	148,360	-	-	-	34,881	183,241
Miscellaneous	105,833	-	-	-	716,664	822,497
	<u>55,540,650</u>	<u>24,941</u>	<u>1,270,387</u>	<u>994,880</u>	<u>6,499,307</u>	<u>64,330,165</u>
Total Revenues						
Expenditures:						
Current:						
General government	2,623,130	-	249,254	-	250,485	3,122,869
Public safety	7,569,678	-	-	-	339,576	7,909,254
Education	29,080,773	416,075	-	-	4,322,886	33,819,734
Public works	2,785,922	-	-	-	1,918,471	4,704,393
Health and human services	504,840	-	-	-	185,401	690,241
Culture and recreation	623,607	-	-	-	307,394	931,001
Employee benefits	6,768,667	-	-	-	-	6,768,667
Miscellaneous	80,813	-	-	-	130,206	211,019
Debt service	5,990,944	-	456,250	-	-	6,447,194
Intergovernmental	583,791	-	-	-	-	583,791
	<u>56,612,165</u>	<u>416,075</u>	<u>705,504</u>	<u>-</u>	<u>7,454,419</u>	<u>65,188,163</u>
Total Expenditures						
Excess (deficiency) of revenues over expenditures	(1,071,515)	(391,134)	564,883	994,880	(955,112)	(857,998)
Other Financing Sources (Uses):						
Transfers in	1,235,144	-	-	-	375,000	1,610,144
Transfers out	(344,850)	-	(100,000)	(1,050,295)	(184,849)	(1,679,994)
	<u>890,294</u>	<u>-</u>	<u>(100,000)</u>	<u>(1,050,295)</u>	<u>190,151</u>	<u>(69,850)</u>
Total Other Financing Sources (Uses)						
Change in fund balance	(181,221)	(391,134)	464,883	(55,415)	(764,961)	(927,848)
Fund Equity, at Beginning of Year, as restated	11,371,412	1,289,302	2,923,333	1,791,339	5,336,066	22,711,452
Fund Equity, at End of Year	<u>\$ 11,190,191</u>	<u>\$ 898,168</u>	<u>\$ 3,388,216</u>	<u>\$ 1,735,924</u>	<u>\$ 4,571,105</u>	<u>\$ 21,783,604</u>

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

TOWN OF HANOVER, 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

Net changes in fund balances - total governmental funds	\$ (927,848)																				
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">3,234,090</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,405,056)</td> </tr> </table> • 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 (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">208,836</td> </tr> </table> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(888,281)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">4,070,568</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">305,139</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">195,497</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">578,660</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;">(2,621,012)</td> </tr> </table> • Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(284,296)</u></td> </tr> </table> 		Capital outlay purchases	3,234,090	Depreciation	(3,405,056)		208,836		(888,281)	Repayments of debt	4,070,568	Amortization of bond premium	305,139		195,497	Compensated absences	578,660	Net OPEB obligation	(2,621,012)		<u>(284,296)</u>
Capital outlay purchases	3,234,090																				
Depreciation	(3,405,056)																				
	208,836																				
	(888,281)																				
Repayments of debt	4,070,568																				
Amortization of bond premium	305,139																				
	195,497																				
Compensated absences	578,660																				
Net OPEB obligation	(2,621,012)																				
	<u>(284,296)</u>																				
Change in net assets of governmental activities	<u>\$ 466,297</u>																				

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

TOWN OF HANOVER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 41,212,467	\$ 41,212,467	\$ 41,212,467	\$ -
Excises	1,983,088	1,983,088	2,595,258	612,170
Penalties, interest, and other taxes	90,000	90,000	185,386	95,386
Charges for services	313,043	313,043	354,995	41,952
Licenses and permits	417,886	417,886	677,916	260,030
Fines and forfeitures	87,570	87,570	117,238	29,668
Intergovernmental	9,705,723	9,705,723	9,724,996	19,273
Investment income	35,000	35,000	72,448	37,448
Other revenues	35,000	35,000	105,833	70,833
Other financing sources:				
Transfers in	1,524,899	1,524,899	1,593,883	68,984
Use of overlay surplus	-	500,000	500,000	-
Use of fund balance	2,002,100	2,197,450	2,197,450	-
Total Revenues	57,406,776	58,102,126	59,337,870	1,235,744
Expenditures and other uses:				
Current:				
General government	5,154,735	5,159,735	5,087,233	72,502
Public safety	7,488,991	7,504,341	7,339,549	164,792
Education	26,867,521	26,867,521	26,857,754	9,767
Public works	2,938,060	3,113,060	2,997,051	116,009
Health and human services	450,805	450,805	436,617	14,188
Culture and recreation	545,305	545,305	562,331	(17,026)
Employee benefits	7,114,955	7,114,955	6,767,799	347,156
Debt service	5,872,705	5,872,705	6,060,794	(188,089)
Intergovernmental	587,173	587,173	583,791	3,382
Other financing uses:				
Transfers out	275,000	775,000	775,000	-
Other uses	111,526	111,526	111,526	-
Total Expenditures	57,406,776	58,102,126	57,579,445	522,681
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,758,425	\$ 1,758,425

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

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u>
	Water <u>Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 690,724
User fees, net of allowance for uncollectibles	<u>1,386,221</u>
Total current assets	2,076,945
Noncurrent:	
Capital Assets:	
Land and construction in progress	827,766
Other assets, net of accumulated depreciation	<u>8,949,702</u>
Total noncurrent assets	9,777,468
DEFERRED OUTFLOWS OF RESOURCES	<u>167,992</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	12,022,405
LIABILITIES	
Current:	
Warrants payable	115,055
Accrued liabilities	7,367
Current portion of long-term liabilities:	
Bonds payable	470,000
Compensated absence	<u>5,045</u>
Total current liabilities	597,467
Noncurrent:	
Bonds payable, net of current portion	2,366,300
Compensated absence, net of current portion	95,854
Net OPEB obligation	1,113,397
Net pension liability	<u>1,426,523</u>
Total noncurrent liabilities	5,002,074
DEFERRED INFLOWS OF RESOURCES	<u>220,600</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,820,141
NET POSITION	
Invested in capital assets, net of related debt	6,889,611
Unrestricted	<u>(687,347)</u>
TOTAL NET POSITION	<u>\$ 6,202,264</u>

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

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

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ 3,558,519
Other	<u>131,301</u>
Total Operating Revenues	3,689,820
Operating Expenses:	
Operating expenses	3,269,217
Depreciation	420,290
Employee benefits	<u>129,199</u>
Total Operating Expenses	<u>3,818,706</u>
Operating Income (Loss)	(128,886)
Nonoperating Revenues (Expenses):	
Interest expense	<u>(151,299)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(151,299)</u>
Income (Loss) Before Transfers	(280,185)
Transfers:	
Transfers in	69,850
Transfers out	<u>(2,600)</u>
Change in Net Position	(212,935)
Net Position at Beginning of Year, as restated	<u>6,415,199</u>
Net Position at End of Year	<u><u>\$ 6,202,264</u></u>

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

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

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 3,559,798
Payments to vendors and employees	<u>(3,025,181)</u>
Net Cash Provided By Operating Activities	534,617
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers in	69,850
Transfers out	<u>(2,600)</u>
Net Cash Provided By Noncapital Financing Activities	67,250
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(501,923)
Principal payments on bonds and notes	(689,700)
Interest expense	<u>(151,299)</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,342,922)
<u>Cash Flows From Investing Activities:</u>	
Net Change in Cash and Short-Term Investments	(741,055)
Cash and Short-Term Investments, Beginning of Year	<u>1,431,779</u>
Cash and Short-Term Investments, End of Year	<u>\$ 690,724</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ (128,886)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	420,290
Changes in assets and liabilities:	
User fees	(130,022)
Deferred outflows	(107,364)
Deferred inflows	220,600
Warrants and accounts payable	30,740
Accrued liabilities	(404)
Compensated absences	(23,712)
Accrued other post-employment	137,948
Net pension liability	<u>115,427</u>
Net Cash Provided By Operating Activities	<u>\$ 534,617</u>

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

TOWN OF HANOVER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 133,879	\$ 826,021
Accounts receivable	<u>-</u>	<u>117,573</u>
Total Assets	133,879	943,594
 <u>LIABILITIES AND NET POSITION</u>		
Accounts payable	-	30,538
Escrow deposits	<u>-</u>	<u>913,056</u>
Total Liabilities	<u>-</u>	<u>943,594</u>
 <u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>133,879</u></u>	\$ <u><u>-</u></u>

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

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 10,000
Interest income	<u>16</u>
Total additions	10,016
Deductions:	
Other	<u>22,250</u>
Total deductions	<u>22,250</u>
Net increase (decrease)	(12,234)
Net position:	
Beginning of year	<u>146,113</u>
End of year	<u>\$ 133,879</u>

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

TOWN OF HANOVER, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Hanover (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 Fund reports activities related to the High School construction and Sylvester School renovation projects.

- The Community Preservation Fund reports all open space, historic resources, and community housing activities whose costs are principally funded through Community Preservation Act revenues.
- The Ambulance fund is used to track the activities related to providing ambulance services to the Town.

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 Enterprise Fund

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

The *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 \$82,649.

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 \$10,000 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	40
Infrastructure	40 - 50
Vehicles	5 - 15
Office equipment	5 - 10
Computer equipment	5 - 10

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 Advisory 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 Advisory 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 appropriations as voted. Certain items may exceed the department 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)	\$ 55,540,650	\$ 56,612,165
Other financing sources/uses (GAAP basis)	<u>1,235,144</u>	<u>344,850</u>
Subtotal (GAAP Basis)	56,775,794	56,957,015
Adjust tax revenue to accrual basis	(78,860)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(940,672)
Add end-of-year appropriation carryforwards from expenditures	-	663,607
To record use of overlay surplus	500,000	-
To record use of free cash	2,197,450	-
To record other uses	-	111,526
To remove unbudgeted stabilization fund	(415,253)	500,000
Other timing issues and reclassifications	<u>358,739</u>	<u>287,969</u>
Budgetary basis	<u>\$ 59,337,870</u>	<u>\$ 57,579,445</u>

D. Deficit Fund Equity

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

Special Revenue Funds:	
FEMA/FY15 Winter Storm	\$ (221,057)
FY14 BVP Grant	(9,938)
ECC FY16 911 EMD	(11,730)
HS Transportation	(21,990)
FY16 MAHB	(2,822)
MS Extended Day	(2,920)
Capital Projects:	
Fire Breath Apparatus SCBA	(269,926)
Fire Portable Radio Equip	(120,214)
DPW 4X4 Pickup Purch/equip	(37,745)
DPW 1 Ton Dump Truck Purch/equip	(63,951)
DPW LRG Dump Truck Purch/equip	(156,526)
Energy MGMT Controls	(80,954)
Generator Fire Headquarters	(177,205)
Fire HQ Kitchen Renovations	(40,216)
Sylvester Feasibility	<u>(404,267)</u>
	<u>\$ (1,621,461)</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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2016, \$475,076 of the Town's bank balance of \$13,353,841 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	Fair Value	Exempt From Disclosure	Rating as of Year End					
			AA+	AA	A+	A-	BBB+	BBB-
U.S. Treasury notes	\$ 257	\$ -	\$ 257	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	6,802	6,802	-	-	-	-	-	-
Corporate bonds	481	-	51	40	132	60	106	92
Mutual funds	4,272	4,272	-	-	-	-	-	-
Federal agency securities	905	-	905	-	-	-	-	-
Total investments	<u>\$ 12,717</u>	<u>\$ 11,074</u>	<u>\$ 1,213</u>	<u>\$ 40</u>	<u>\$ 132</u>	<u>\$ 60</u>	<u>\$ 106</u>	<u>\$ 92</u>

B. Custodial Credit Risk

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

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

C. Concentration of Credit Risk

The Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information 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>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>N/A</u>
U.S. Treasury notes	\$ 257	\$ -	\$ 257	\$ -
Certificates of deposit	6,802	6,273	529	-
Corporate bonds	481	-	481	-
Mutual funds	4,272	-	-	4,272
Federal agency securities	905	-	905	-
Total	<u>\$ 12,717</u>	<u>\$ 6,273</u>	<u>\$ 2,172</u>	<u>\$ 4,272</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

F. 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.

The Town has the following fair value measurements as of June 30, 2016:

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
Federal agency securities	\$ 905	\$ -	\$ 905
U.S. Treasury notes	257	-	257
Corporate bonds	481	-	481
Mutual funds	<u>4,272</u>	<u>4,272</u>	<u>-</u>
Total	<u>\$ 5,915</u>	<u>\$ 4,272</u>	<u>\$ 1,643</u>

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	\$ 510	
2015	7	
2014	-	
2013	8	
2012	9	
2011	13	
2010	10	
2009	4	
2008	4	
Prior	<u>3</u>	
		568
Personal Property		
2016	13	
2015	8	
2014	10	
2013	5	
2012	4	
2011	5	
2010	<u>12</u>	
		57
Tax Liens		594
Deferred Taxes		<u>95</u>
Total		<u>\$ 1,314</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>	<u>Business-Type</u>
Property taxes	\$ 198	\$ -
Excises	\$ 59	\$ -
Utilities	\$ -	\$ 85
Other	\$ 1,038	\$ -

7. Intergovernmental Receivables

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

8. Interfund Transfers

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental, proprietary, and fiduciary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2016.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Major Funds:		
General fund	\$ 1,235,144	\$ (344,850)
Community preservation fund	-	(100,000)
Ambulance fund	-	(1,050,295)
Nonmajor Funds:		
Special revenue funds	-	(184,849)
Trust funds	<u>375,000</u>	<u>-</u>
Subtotal - Governmental	1,610,144	(1,679,994)
Business-type Funds:		
Water fund	<u>69,850</u>	<u>(2,600)</u>
Subtotal - Business-type	69,850	(2,600)
Fiduciary Funds:		
Agency fund	<u>2,600</u>	<u>-</u>
Subtotal - Fiduciary	<u>2,600</u>	<u>-</u>
Total	<u>\$ 1,682,594</u>	<u>\$ (1,682,594)</u>

9. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 100,401	\$ 209	\$ -	\$ 100,610
Machinery, equipment, and furnishings	3,714	76	-	3,790
Vehicles	7,058	1,383	-	8,441
Infrastructure	<u>28,968</u>	<u>1,388</u>	<u>-</u>	<u>30,356</u>
Total capital assets, being depreciated	140,141	3,056	-	143,197
Less accumulated depreciation for:				
Buildings and improvements	(26,929)	(2,312)	-	(29,241)
Machinery, equipment, and furnishings	(2,159)	(156)	-	(2,315)
Vehicles	(6,190)	(404)	-	(6,594)
Infrastructure	<u>(16,438)</u>	<u>(533)</u>	<u>-</u>	<u>(16,971)</u>
Total accumulated depreciation	<u>(51,716)</u>	<u>(3,405)</u>	<u>-</u>	<u>(55,121)</u>
Total capital assets, being depreciated, net	88,425	(349)	-	88,076
Capital assets, not being depreciated:				
Land	10,031	-	-	10,031
Construction in progress	<u>3</u>	<u>178</u>	<u>-</u>	<u>181</u>
Total capital assets, not being depreciated	<u>10,034</u>	<u>178</u>	<u>-</u>	<u>10,212</u>
Governmental activities capital assets, net	<u>\$ 98,459</u>	<u>\$ (171)</u>	<u>\$ -</u>	<u>\$ 98,288</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,415	\$ -	\$ -	\$ 6,415
Vehicles	90	202	-	292
Infrastructure	<u>12,163</u>	<u>300</u>	<u>-</u>	<u>12,463</u>
Total capital assets, being depreciated	18,668	502	-	19,170
Less accumulated depreciation for:				
Buildings and improvements	(2,112)	(137)	-	(2,249)
Vehicles	(19)	(53)	-	(72)
Infrastructure	<u>(7,668)</u>	<u>(231)</u>	<u>-</u>	<u>(7,899)</u>
Total accumulated depreciation	<u>(9,799)</u>	<u>(421)</u>	<u>-</u>	<u>(10,220)</u>
Total capital assets, being depreciated, net	8,869	81	-	8,950
Capital assets, not being depreciated:				
Land	<u>828</u>	<u>-</u>	<u>-</u>	<u>828</u>
Total capital assets, not being depreciated	<u>828</u>	<u>-</u>	<u>-</u>	<u>828</u>
Business-type activities capital assets, net	<u>\$ 9,697</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 9,778</u>

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

Governmental Activities:	
General government	\$ 122
Public safety	451
Education	1,791
Public works	745
Culture and recreation	<u>296</u>
Total depreciation expense - governmental activities	<u>\$ 3,405</u>
Business-Type Activities:	
Water	<u>\$ 421</u>
Total depreciation expense - business-type activities	<u>\$ 421</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:

	<u>Entity-wide Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Net difference between projected and actual pension investment earnings	\$ 3,191,840	\$ 167,992

11. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

12. Anticipation Notes Payable

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

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/16
Bond anticipation	0.00%	01/15/12	01/15/17	\$ 6,000
Bond anticipation	2.00%	06/24/16	06/23/17	<u>1,388,159</u>
Total				<u>\$ 1,394,159</u>

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

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
	\$ <u>2,309,455</u>	\$ <u>561,402</u>	\$ <u>(1,476,698)</u>	\$ <u>1,394,159</u>
Total	\$ <u>2,309,455</u>	\$ <u>561,402</u>	\$ <u>(1,476,698)</u>	\$ <u>1,394,159</u>

13. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/16
<u>Governmental Activities:</u>			
Stormwater management	08/01/22	3.00%	\$ 75,000
General purpose refunding	05/15/17	2.00%	4,500
General purpose refunding	05/15/18	2.00%	40,000
Police station construction refunding	05/15/17	2.00%	175,500
General purpose	08/15/16	4.00%	65,000
General purpose	05/15/27	3.25-4.00%	335,000
General purpose	05/15/29	3.00%	2,795,000
School reconstruction refunding	05/15/21	4.50%	5,065,000
Library reconstruction refunding	05/15/21	4.50%	495,000
Septic betterment	08/01/18	0.00%	32,604
Landfill closure refunding	05/15/18	2.00%	155,000
General obligation loan	06/30/32	2.87%	11,035,000
General obligation loan	09/01/34	3.96%	10,165,000
MWPAT T5-97-1140-A	01/15/35	0.00%	279,300
General obligation refunding	05/15/29	2.00-4.00%	<u>12,573,700</u>
Total Governmental Activities:			<u>\$ 43,290,604</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
Water building and mains	08/15/16	4.00%	\$ 135,000
Plant and mains	05/15/27	3.25-4.00%	30,000
Alternative Energy	06/30/32	2.87%	570,000
General obligation refunding	5/15/029	2.00-4.00%	<u>2,101,300</u>
Total Business-Type Activities:			\$ <u><u>2,836,300</u></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	\$ 4,075,568	\$ 2,122,949	\$ 6,198,517
2018	3,850,568	2,002,223	5,852,791
2019	3,813,568	1,795,434	5,609,002
2020	3,845,400	1,156,237	5,001,637
2021	3,789,700	999,195	4,788,895
2022 - 2026	13,488,500	3,096,989	16,585,489
2027 - 2031	8,683,500	872,100	9,555,600
2032 - 2036	<u>1,743,800</u>	<u>94,525</u>	<u>1,838,325</u>
Total	\$ <u><u>43,290,604</u></u>	\$ <u><u>12,139,652</u></u>	\$ <u><u>55,430,256</u></u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 470,000	\$ 103,000	\$ 573,000
2018	315,000	98,402	413,402
2019	312,000	82,202	394,202
2020	309,300	69,722	379,022
2021	310,000	56,900	366,900
2022 - 2026	970,000	112,800	1,082,800
2027 - 2031	<u>150,000</u>	<u>13,700</u>	<u>163,700</u>
Total	\$ <u><u>2,836,300</u></u>	\$ <u><u>536,726</u></u>	\$ <u><u>3,373,026</u></u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/15</u>	Additions	Reductions	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 47,782	\$ -	\$ (4,492)	\$ 43,290	\$ (4,075)	\$ 39,215
Other:						
Compensated absences	3,526	-	(579)	2,947	(147)	2,800
Bond premium	2,619	-	(305)	2,314	(228)	2,086
Accrued other post-employment benefits	18,960	2,621	-	21,581	-	21,581
Net pension liability	24,911	2,193	-	27,104	-	27,104
Totals	<u>\$ 97,798</u>	<u>\$ 4,814</u>	<u>\$ (5,376)</u>	<u>\$ 97,236</u>	<u>\$ (4,450)</u>	<u>\$ 92,786</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,520	\$ -	\$ (684)	\$ 2,836	\$ (470)	\$ 2,366
Other:						
Compensated absences	125	-	(24)	101	(5)	96
Accrued other post-employment benefits	976	137	-	1,113	-	1,113
Net pension liability	1,311	115	-	1,426	-	1,426
Totals	<u>\$ 5,932</u>	<u>\$ 252</u>	<u>\$ (708)</u>	<u>\$ 5,476</u>	<u>\$ (475)</u>	<u>\$ 5,001</u>

14. Deferred Inflows of Resources

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

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

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>			
	<u>Governmental</u>	<u>Business-type</u>	<u>Governmental Funds</u>			
	<u>Activities</u>	<u>Activities</u>	<u>General Fund</u>	<u>Community Preservation Major</u>	<u>Ambulance Major</u>	<u>Nonmajor</u>
Unavailable revenues	\$ -	\$ -	\$ 1,436,427	\$ 11,227	\$ 1,266,452	\$ 198,571
Taxes collected in advance	90,056	-	90,056	-	-	-
Gain on refunding	421,300	213,700	-	-	-	-
Pension related:						
Changes in proportion and differences between contributions and proportionate share of contributions	131,097	6,900	-	-	-	-
	<u>\$ 642,453</u>	<u>\$ 220,600</u>	<u>\$ 1,526,483</u>	<u>\$ 11,227</u>	<u>\$ 1,266,452</u>	<u>\$ 198,571</u>

15. Restricted Net Position

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

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

16. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 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, stabilization funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

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

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

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

	General Fund	School Capital Project Fund	Community Preservation Fund	Ambulance Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ -	\$ 166,460	\$ 166,460
Total Nonspendable	-	-	-	-	166,460	166,460
Restricted						
Bonded projects	-	1,302,435	-	-	-	1,302,435
Debt service	1,562,764	-	-	-	-	1,562,764
Special revenue funds	-	-	-	1,735,924	5,530,329	7,266,253
Expendable permanent funds	-	-	-	-	91,510	91,510
Total Restricted	1,562,764	1,302,435	-	1,735,924	5,621,839	10,222,962
Committed						
Continued appropriations						
General government	271,051	-	-	-	-	271,051
Public safety	89,215	-	-	-	-	89,215
Education	96,563	-	-	-	-	96,563
Public works	109,495	-	-	-	-	109,495
Culture and recreation	25,559	-	-	-	-	25,559
OPEB stabilization	1,298,302	-	-	-	-	1,298,302
Capital stabilization	503,085	-	-	-	-	503,085
Community preservation	-	-	3,388,216	-	-	3,388,216
Total Committed	2,393,270	-	3,388,216	-	-	5,781,486
Assigned						
Encumbrances						
General government	1,714	-	-	-	-	1,714
Public safety	6,129	-	-	-	-	6,129
Education	28,368	-	-	-	-	28,368
Public works	34,795	-	-	-	-	34,795
Health and human services	642	-	-	-	-	642
Employee benefits	75	-	-	-	-	75
Reserved for expenditures	1,770,962	-	-	-	-	1,770,962
Total Assigned	1,842,685	-	-	-	-	1,842,685
Unassigned						
Special revenue funds	-	-	-	-	(270,458)	(270,458)
Capital projects	-	(404,267)	-	-	(946,736)	(1,351,003)
General stabilization	2,107,597	-	-	-	-	2,107,597
Unassigned	3,283,875	-	-	-	-	3,283,875
Total Unassigned	5,391,472	(404,267)	-	-	(1,217,194)	3,770,011
Total Fund Balances	\$ 11,190,191	\$ 898,168	\$ 3,388,216	\$ 1,735,924	\$ 4,571,105	\$ 21,783,604

17. General Fund Unassigned Fund Balance

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

Massachusetts general laws include provisions to allow municipalities to over expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such overexpenditures, however, must be funded in the subsequent year’s tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

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	\$ 5,391,472
Stabilization fund	(2,107,597)
Tax refund estimate	<u>40,650</u>
Statutory (UMAS) Balance	<u>\$ 3,324,525</u>

18. Commitments and Contingencies

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town’s management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

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

19. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2015, the actuarial valuation date, approximately 422 retirees and 561 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 3,942,428
Interest on net OPEB obligation	797,418
Adjustment to ARC	<u>(937,505)</u>
Annual OPEB cost	3,802,341
Contributions made	<u>(1,043,381)</u>
Increase in net OPEB obligation	2,758,960
Net OPEB obligation - beginning of year	<u>19,935,443</u>
Net OPEB obligation - end of year	<u><u>\$ 22,694,403</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 3,802,341	27%	\$ 22,694,403
2015	\$ 3,345,926	56%	\$ 19,935,443
2014	\$ 5,118,809	33%	\$ 18,476,790

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 January 1, 2015, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 37,819
Less actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 37,819</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.00%</u>
Covered payroll (active plan members)	<u>\$ 35,989</u>
UAAL as a percentage of covered payroll	<u>105.1%</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 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 January 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return and an initial annual healthcare cost trend rate of between 2.61% and 6.69%, after the initial year trends start at 8% and decrease to 5% or 6% over 6 to 8 years (depending on health insurance plan). The amortization costs for the initial UAAL is a level percentage of payroll for a period of 23 years. This has been calculated assuming the amortization payment increases at a rate of 3.25%.

20. Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Plymouth County Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 10 Cordage Park Circle, Suite 234, Plymouth, Massachusetts 02360.

Participant Retirement Benefits

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

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

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

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

Participant Refunds

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

tarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

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

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

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$2,849,033, 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 \$28,530,444 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. 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 4.498 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$3,305,860. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>3,359,832</u>	\$ <u>137,997</u>
Total	\$ <u><u>3,359,832</u></u>	\$ <u><u>137,997</u></u>

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

Year ended June 30:	
2017	\$ 881,500
2018	881,500
2019	881,500
2020	<u>577,335</u>
Total	\$ <u><u>3,221,835</u></u>

D. Actuarial Assumptions

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

COLA	3% of the first \$13,000
Salary increases	3.75% per year, including longevity
Investment rate of return	8%

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed income	25.50%	7.90%
Domestic equity	33.00%	10.20%
International equity	16.00%	11.00%
Real estate	13.00%	9.30%
Private equity	7.50%	14.60%
Hedge funds	4.00%	8.70%
Cash and cash equivalents	1.00%	4.00%

E. Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
June 30, 2016	\$ 35,397,177	\$ 28,530,444	\$ 22,641,756

G. Pension Plan Fiduciary Net Position

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

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

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) 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. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015, rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and 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 of 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%	7.2%
Core fixed income	13.0%	2.4%	2.5%
Private equity	10.0%	8.5%	8.8%
Real estate	10.0%	6.5%	6.3%
Value added fixed income	10.0%	5.8%	6.3%
Hedge funds	9.0%	5.8%	5.5%
Portfolio completion strategies	4.0%	5.5%	0.0%
Timber/natural resources	<u>4.0%</u>	6.6%	5.0%
Total	<u>100.0%</u>		

E. Discount Rate

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

F. Sensitivity Analysis

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7.0%</u>	<u>Current Discount Rate 8.0%</u>	<u>1% Increase to 9.0%</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 Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$60,614,371 and \$4,916,365 respectively, based on a proportionate share of 0.295829%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

22. Risk Management

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

23. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

24. Beginning Net Position Restatement and Reclassification

The beginning (July 1, 2015) net position of the Town has been restated and reclassified as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>	Business-Type Activities <u>Water Fund</u>
As previously reported	\$ 30,963,747	\$ 6,226,589
To reclass MWPAT from Water to nonmajor	190,390	(190,390)
To reclass debt from Water to governmental	<u>(379,000)</u>	<u>379,000</u>
As restated	<u>\$ 30,775,137</u>	<u>\$ 6,415,199</u>

Fund Basis Financial Statements:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	
	<u>General Fund</u>	Nonmajor Governmental <u>Funds</u>	Water <u>Enterprise</u>
As previously reported	\$ 11,341,412	\$ 5,175,676	\$ 6,226,589
To reclass AHT to General Fund	30,000	(30,000)	-
To reclass MWPAT from Water to nonmajor	-	190,390	(190,390)
To reclass debt from Water to governmental	<u>-</u>	<u>-</u>	<u>379,000</u>
As restated	<u>\$ 11,371,412</u>	<u>\$ 5,336,066</u>	<u>\$ 6,415,199</u>

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

June 30, 2016

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/15	\$ -	\$ 37,819	\$ 37,819	0.00%	\$ 35,989	105.1%
01/01/11	\$ -	\$ 47,798	\$ 47,798	0.00%	\$ 28,675	166.7%
07/01/08	\$ -	\$ 33,604	\$ 33,604	0.00%	\$ 24,891	135.0%

See Independent Auditors' Report.

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

Plymouth County Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	4.498%	\$28,530,444	\$ 12,975,337	219.88%	56.80%
June 30, 2015	4.498%	\$26,221,911	\$ 12,506,349	209.67%	58.88%

Massachusetts Teachers' Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	0.295829%	\$ -	\$ 60,614,371	\$ 60,614,371	\$ 18,752,269	0.00%	55.38%
June 30, 2015	0.293323%	\$ -	\$ 46,627,648	\$ 46,627,648	\$ 17,985,082	0.00%	61.64%

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

See Independent Auditors' Report.

TOWN OF HANOVER, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

Plymouth County Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 2,849,033	\$ 2,849,033	\$ -	\$ 12,975,337	21.96%
June 30, 2015	\$ 2,637,067	\$ 2,637,067	\$ -	\$ 12,506,349	21.09%

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

See Independent Auditors' Report.