

TOWN OF BOXFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

Town of Boxford, Massachusetts

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INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Boxford, Massachusetts, as of June 30, 2015, and the respective changes in financial position 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 the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

October 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise 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/deferred outflows and liabilities/deferred inflows, with the difference between these amounts reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's 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).

The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, insurance and benefits, interest, and intergovernmental expense.

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 two categories: governmental 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 Funds Balance Sheet and the Governmental Funds 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.

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.

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

- At the end of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows by \$37,878,090 (i.e., total net position), a change of \$1,266,127 in comparison to the prior year.
- At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,465,518, a change of \$(337,105) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,091,113, a change of \$559,887 in comparison to the prior year.
- At the end of the current fiscal year, total long-term debt (i.e., bonds payable) was \$7,839,687, a change of \$(1,108,562) 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.

NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 11,167,324	\$ 11,916,720
Capital assets	<u>56,724,047</u>	<u>56,048,870</u>
Total assets	67,891,371	67,965,590
Current liabilities	2,713,399	3,135,337
Noncurrent liabilities	27,156,759	15,758,096
Deferred inflows of resources	<u>143,123</u>	<u>70,065</u>
Total liabilities and deferred inflows	30,013,281	18,963,498
Net position:		
Net investment in capital assets	48,785,176	46,929,752
Restricted	4,698,936	4,875,730
Unrestricted	<u>(15,606,022)</u>	<u>(2,803,390)</u>
Total net position	<u>\$ 37,878,090</u>	<u>\$ 49,002,092</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,361,134	\$ 1,297,460
Operating grants and contributions	3,102,918	3,433,290
Capital grants and contributions	721,185	427,319
General revenues:		
Taxes	26,514,946	24,535,178
Excises	1,557,045	1,448,158
Interest, penalties, and other taxes	78,013	83,865
Grants and contributions not restricted to specific programs	852,266	1,187,972
Investment income	95,067	124,928
Miscellaneous	<u>71,044</u>	<u>19,901</u>
Total revenues	34,353,618	32,558,071

(continued)

(continued)

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Expenses:		
General government	1,877,803	2,029,672
Public safety	2,616,710	2,568,624
Education	22,001,249	20,772,411
Public works	2,987,951	2,742,615
Health and human services	303,622	293,385
Culture and recreation	540,682	849,429
Insurance and benefits	2,175,263	1,924,034
Interest expense	266,722	284,980
Intergovernmental	139,121	175,984
Total expenses	<u>32,909,123</u>	<u>31,641,134</u>
Change in net position	1,444,495	916,937
Transfers in (out)	<u>(178,368)</u>	<u>(250,000)</u>
Change in net position	1,266,127	666,937
¹ Net position - beginning of year, as restated	<u>36,611,963</u>	<u>48,335,155</u>
Net position - end of year	<u>\$ 37,878,090</u>	<u>\$ 49,002,092</u> ¹

¹ Restated from the prior year as described in Note 25.

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 \$37,878,090, a change of \$1,266,127 from the prior year.

The largest portion of net position \$48,785,176 reflects our investment in capital assets (e.g., land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, 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 \$4,698,936 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit balance of \$(15,606,022), primarily caused by the unfunded portion of the Town's OPEB and Net Pension liabilities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,266,127. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 156,386
Community Preservation fund change in fund balance	399,222
Library Design fund change in fund balance	34,591
Nonmajor funds change in fund balance (accrual basis)	741,565
Capital acquisitions funded with general and Community Preservation funds	916,907
Depreciation expense in excess of principal debt service	(680,160)
Capital lease proceeds	(153,296)
Change in OPEB and net pension liabilities	(148,115)
Other	(973)
Total	<u>\$ 1,266,127</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 \$9,465,518, a change of \$(337,105) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures and other financing uses	\$ 156,386
Community Preservation fund revenues in excess of expenditures	399,222
Library Design fund other financing sources in excess of expenditures	34,591
Nonmajor fund expenditures and other financing uses in excess of revenues and other financing sources	(927,304)
Total	<u>\$ (337,105)</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 \$4,091,113, while total fund balance was \$5,423,821. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 4,091,113	\$ 3,531,226	\$ 559,887	13.6%
Total fund balance	\$ 5,423,821	\$ 5,267,435	\$ 156,386	18.0%

The total fund balance of the general fund changed by \$156,386 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 548,016
Expenditures less than budget	464,060
Use of free cash and overlay surplus as a funding source	(1,026,472)
Prior year encumbrances in excess of current year encumbrances	(144,544)
Change in stabilization fund balance	13,766
Prior year snow/ice deficit raised	151,581
Other	149,979
Total	<u>\$ 156,386</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization fund	\$ 791,748	\$ 777,982	\$ 13,766

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$275,000. This increase to supplement the Finance Committee Reserve Funds and Snow & Ice Removal appropriation was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$56,724,047(net of accumulated depreciation), a change of \$675,177 from the prior year. This investment in capital assets includes land,

construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, and infrastructure.

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

- \$932,845 for land and construction in progress, including the purchase of the Nason Property for open space, conservation and passive recreation.
- \$1,800 for land improvements.
- \$20,840 for building improvements at the West Library.
- \$852,356 for various machinery, equipment, and vehicles, including a fire brush truck, school technology equipment, and a highway dump truck.
- \$777,934 for infrastructure improvements to the Main Street/Glendale Road culverts and various Town roads.
- Loss on disposal of various assets of \$(69,835).
- Current year depreciation expense of \$(1,840,763).

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

Credit rating. Subsequent to June 30, 2015, the Town's Standard & Poor's credit rating was upgraded to AAA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$7,839,687, 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 Boxford'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:

Director of Municipal Finance/Town Accountant
Town of Boxford, Massachusetts
7A Spofford Road, 2nd Floor
Boxford, Massachusetts 01921

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 5,301,757
Investments	5,572,977
Receivables, net of allowance for uncollectibles:	
Taxes	191,693
Excises	70,770
Betterments	5,940
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Betterments	24,187
Land and construction in progress	20,591,583
Capital assets, net of accumulated depreciation	<u>36,132,464</u>
TOTAL ASSETS	<u>67,891,371</u>
LIABILITIES	
Current:	
Warrants payable	343,818
Accrued liabilities	170,409
Tax refunds payable	247,579
Notes payable	615,000
Other	112,568
Current portion of long-term liabilities:	
Bonds payable	1,088,561
Other liabilities	135,464
Noncurrent:	
Bonds payable, net of current portion	6,751,126
Other liabilities, net of current portion	1,369,418
Other post-employment benefits	6,647,189
Net pension liability	12,389,026
DEFERRED INFLOWS OF RESOURCES	<u>143,123</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>30,013,281</u>
NET POSITION	
Net investment in capital assets	48,785,176
Restricted for:	
Community preservation funds	3,848,999
Grants and other statutory restrictions	836,105
Permanent funds:	
Nonexpendable	5,070
Expendable	8,762
Unrestricted	<u>(15,606,022)</u>
TOTAL NET POSITION	<u><u>\$ 37,878,090</u></u>

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

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	<u>Expenses</u>				
Governmental Activities:					
General government	\$ 1,877,803	\$ 88,542	\$ 11,699	\$ 250,000	\$ (1,527,562)
Public safety	2,616,710	337,828	34,852	133,000	(2,111,030)
Education	22,001,249	606,332	2,987,526	-	(18,407,391)
Public works	2,987,951	256,221	12,774	338,185	(2,380,771)
Health and human services	303,622	33,890	29,569	-	(240,163)
Culture and recreation	540,682	38,321	25,344	-	(477,017)
Insurance and benefits	2,175,263	-	1,154	-	(2,174,109)
Interest expense	266,722	-	-	-	(266,722)
Intergovernmental	139,121	-	-	-	(139,121)
Total Governmental Activities	<u>\$ 32,909,123</u>	<u>\$ 1,361,134</u>	<u>\$ 3,102,918</u>	<u>\$ 721,185</u>	<u>(27,723,886)</u>
General Revenues:					
					26,514,946
Taxes					1,557,045
Excises					78,013
Interest, penalties, and other taxes					852,266
Grants and contributions not restricted to specific programs					95,067
Investment income					71,044
Miscellaneous					(178,368)
Transfers, net					
Total general revenues					<u>28,990,013</u>
Change in Net Position					1,266,127
Net Position:					
Beginning of year, as restated					<u>36,611,963</u>
End of year					<u>\$ 37,878,090</u>

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

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Community Preservation Fund	Library Design Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 4,473,948	\$ 146,097	\$ 2,240	\$ 679,472	\$ 5,301,757
Investments	1,739,523	3,703,042	-	130,412	5,572,977
Receivables:					
Taxes	187,959	3,734	-	-	191,693
Excises	85,116	-	-	-	85,116
Other	30,127	-	-	-	30,127
TOTAL ASSETS	\$ 6,516,673	\$ 3,852,873	\$ 2,240	\$ 809,884	\$ 11,181,670
LIABILITIES					
Warrants payable	\$ 339,392	\$ -	\$ -	\$ 4,426	\$ 343,818
Accrued liabilities	114,826	-	-	-	114,826
Tax refunds payable	247,579	-	-	-	247,579
Notes payable	-	-	333,500	281,500	615,000
Other	112,568	-	-	-	112,568
TOTAL LIABILITIES	814,365	-	333,500	285,926	1,433,791
DEFERRED INFLOWS OF RESOURCES	278,487	3,874	-	-	282,361
FUND BALANCES					
Nonspendable	-	-	-	5,070	5,070
Restricted	-	3,848,999	-	1,034,892	4,883,891
Committed	457,654	-	-	81,729	539,383
Assigned	875,054	-	-	-	875,054
Unassigned	4,091,113	-	(331,260)	(597,733)	3,162,120
TOTAL FUND BALANCES	5,423,821	3,848,999	(331,260)	523,958	9,465,518
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,516,673	\$ 3,852,873	\$ 2,240	\$ 809,884	\$ 11,181,670

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

TOWN OF BOXFORD, MASSACHUSETTS

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

JUNE 30, 2015

Total governmental fund balances	\$ 9,465,518
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	56,724,047
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	178,773
<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.	(55,583)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, capital leases payable, compensated absences, landfill liability, net OPEB obligation, and net pension liability are not payable in the current period; therefore, they are not reported in the governmental funds.	(28,380,784)
<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>(53,881)</u>
Net position of governmental activities	<u><u>\$ 37,878,090</u></u>

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

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Community Preservation Fund	Library Design Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 25,902,845	\$ 619,615	\$ -	\$ -	\$ 26,522,460
Excises	1,533,569	-	-	-	1,533,569
Interest, penalties, and other taxes	77,011	1,002	-	-	78,013
Charges for services	279,631	-	-	692,289	971,920
Licenses and permits	333,730	-	-	-	333,730
Intergovernmental	2,257,748	236,522	-	1,098,868	3,593,138
Fines and forfeitures	62,017	-	-	-	62,017
Investment income	28,710	66,356	-	2,307	97,373
Miscellaneous	49,096	-	-	76,078	125,174
Total Revenues	30,524,357	923,495	-	1,869,542	33,317,394
Expenditures:					
Current:					
General government	1,607,364	115,683	-	957,974	2,681,021
Public safety	2,533,566	-	-	180,250	2,713,816
Education	19,664,507	-	-	1,039,445	20,703,952
Public works	2,400,407	-	-	608,753	3,009,160
Health and human services	298,220	-	-	49,683	347,903
Culture and recreation	419,761	-	26,909	60,820	507,490
Insurance and benefits	2,092,824	-	-	544	2,093,368
Debt service	1,025,006	408,590	-	-	1,433,596
Intergovernmental	139,121	-	-	-	139,121
Total Expenditures	30,180,776	524,273	26,909	2,897,469	33,629,427
Excess (deficiency) of revenues over expenditures	343,581	399,222	(26,909)	(1,027,927)	(312,033)
Other Financing Sources (Uses):					
Capital lease proceeds	153,296	-	-	-	153,296
Transfers in	257,027	-	61,500	357,650	676,177
Transfers out	(597,518)	-	-	(257,027)	(854,545)
Total Other Financing Sources (Uses)	(187,195)	-	61,500	100,623	(25,072)
Change in fund balance	156,386	399,222	34,591	(927,304)	(337,105)
Fund Equity, at Beginning of Year, as restated	5,267,435	3,449,777	(365,851)	1,451,262	9,802,623
Fund Equity, at End of Year	\$ 5,423,821	\$ 3,848,999	\$ (331,260)	\$ 523,958	\$ 9,465,518

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

TOWN OF BOXFORD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2015

Net changes in fund balances - total governmental funds	\$ (337,105)								
<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> <tr> <td>Capital outlay purchases, net</td><td style="text-align: right;">2,515,940</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(1,840,763)</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. <div style="text-align: right;">15,965</div> 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> <tr> <td>Issuance of debt</td><td style="text-align: right;">(153,296)</td></tr> <tr> <td>Repayments of debt</td><td style="text-align: right;">1,160,603</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. <div style="text-align: right;">6,271</div> 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. <div style="text-align: right;"><u>(101,488)</u></div> 	Capital outlay purchases, net	2,515,940	Depreciation	(1,840,763)	Issuance of debt	(153,296)	Repayments of debt	1,160,603	
Capital outlay purchases, net	2,515,940								
Depreciation	(1,840,763)								
Issuance of debt	(153,296)								
Repayments of debt	1,160,603								
Change in net position of governmental activities	\$ <u><u>1,266,127</u></u>								

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

TOWN OF BOXFORD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Taxes	\$ 25,752,864	\$ 25,752,864	\$ 25,752,864	\$ -
Excises	1,330,252	1,330,252	1,533,569	203,317
Interest, penalties, and other taxes	76,000	76,000	77,011	1,011
Charges for services	283,000	283,000	279,631	(3,369)
Licenses and permits	279,000	279,000	333,730	54,730
Intergovernmental	2,235,565	2,235,565	2,257,748	22,183
Fines and forfeitures	90,000	90,000	62,017	(27,983)
Investment income	12,000	12,000	14,944	2,944
Miscellaneous	5,000	5,000	49,096	44,096
Transfers in	5,940	5,940	257,027	251,087
Use of fund balance	651,472	926,472	926,472	-
Other sources	100,000	100,000	100,000	-
Total Revenues and Other Sources	30,821,093	31,096,093	31,644,109	548,016
Expenditures and other uses:				
General government	1,916,623	1,839,619	1,627,032	212,587
Public safety	2,457,497	2,493,671	2,459,021	34,650
Education	19,871,627	19,871,627	19,673,240	198,387
Public works	2,020,227	2,247,618	2,350,535	(102,917)
Health and human services	278,364	305,663	300,481	5,182
Culture and recreation	438,913	455,553	434,761	20,792
Insurance and benefits	2,162,056	2,185,086	2,089,710	95,376
Debt service	1,385,084	1,385,084	1,385,081	3
Intergovernmental	139,121	139,121	139,121	-
Snow/ice deficit raised on recap	151,581	151,581	151,581	-
Transfers out	-	21,470	21,470	-
Total Expenditures	30,821,093	31,096,093	30,632,033	464,060
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,012,076	\$ 1,012,076

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

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

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ -	\$ 3,015	\$ 61,856
Investments	879,001	46,715	37,254
User fee receivables	<u>-</u>	<u>-</u>	<u>30,370</u>
Total Assets	879,001	49,730	129,480
<u>LIABILITIES AND NET POSITION</u>			
Deposits held in escrow	-	-	76,270
Student activity funds	-	-	26,842
Other liabilities	<u>-</u>	<u>-</u>	<u>26,368</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>129,480</u>
<u>NET POSITION</u>			
Restricted for:			
Endowment	-	12,674	-
Unrestricted	<u>879,001</u>	<u>37,056</u>	<u>-</u>
Total net position held in trust	<u>\$ 879,001</u>	<u>\$ 49,730</u>	<u>\$ -</u>

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

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

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Investment income, net	\$ 30,288	\$ 942
Contributions	<u>-</u>	<u>13,842</u>
Total additions	30,288	14,784
Other financing sources:		
Transfers in	<u>178,368</u>	<u>-</u>
Total other financing sources	178,368	-
Deductions:		
Education	<u>-</u>	<u>14,526</u>
Total deductions	<u>-</u>	<u>14,526</u>
Net increase	208,656	258
Net position:		
Beginning of year	<u>670,345</u>	<u>49,472</u>
End of year	<u><u>\$ 879,001</u></u>	<u><u>\$ 49,730</u></u>

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

TOWN OF BOXFORD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental 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 are the 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 *Community Preservation Fund* is used to account for revenues and expenditures related to the levy of a three percent property tax surcharge that is authorized by the Community Preservation Act. This fund was established by the Town for the purpose of acquiring open land for conservation, developing affordable housing, and preserving historical property.

- The *Library Design Fund* is a capital project fund used to account for activity associated with the design of a proposed new library.

The Other Post-Employment Benefits Trust fund is used to account for the accumulation of resources to fund future health insurance benefits for qualified retirees.

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

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 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.

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 General Fund, Community Preservation Fund and Town Trust Funds consist of bank certificates of deposit, corporate bonds, marketable securities, and U.S. Treasury/Agency securities. Investments for the OPEB Trust Fund are in the custody of the Pension Reserves Investment Management Board (PRIM). PRIM acts as trustee for investments held in the State Retirees Benefits Trust Fund (SRBT), a pooled investment fund created by legislation (Chapter 661 of the Acts of 1983). All investments are carried at market value.

F. Property Tax Limitations

Legislation known as “Proposition 2½” limits 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 or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$840,472.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost that exceeds \$5,000 to \$100,000, depending on the asset’s category, and an estimated useful life in excess of two 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.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50
Vehicles	6
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Town’s policy to permit eligible employees to accumulate earned but unused vacation, sick pay, and retirement benefits. All vested sick, vacation, and retirement pay is accrued when incurred in the government-wide 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, long-term debt and other long-term obligations are reported as liabilities in the 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 – In general, fund balance represents the difference between current assets/deferred outflows and current liabilities/deferred inflows. 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 classifications 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., cemetery perpetual care).
- 2) Restricted funds are used solely for the purpose for 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 Town's highest decision making authority (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include year-end budgetary encumbrances, have been assigned for specific goods and services that have been ordered but not yet paid for. This account also includes fund balance 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 its use either through enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

Formal budgetary integration is employed as a management control device during the year for the General Fund. 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 fund 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)	\$ 30,524,357	\$ 30,180,776
Other financing sources/uses (GAAP basis)	<u>410,323</u>	<u>597,518</u>
Subtotal (GAAP Basis)	30,934,680	30,778,294
Adjust tax revenue to accrual basis	(149,981)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(949,237)
Add end of year appropriation carryforwards to expenditures	-	804,693
Record budgeted use of free cash and overlay surplus	1,026,472	-
Reverse effect of non-budgeted State contributions for teachers' retirement	-	-
Record raising of prior year's snow and ice deficit	-	151,581
Reverse effects of combining general fund and stabilization fund (GASB54)	(13,766)	-
Reverse effect of other non-budgeted activity	<u>(153,296)</u>	<u>(153,298)</u>
Budgetary basis	<u>\$ 31,644,109</u>	<u>\$ 30,632,033</u>

D. Deficit Fund Equity

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

Library Design project	\$ (331,260)
<u>Nonmajor Governmental Funds</u>	
Fire station tight tanks project	(134,161)
Nason land purchase project	(124,897)
Highway Chapter 90 projects	(331,693)
Communications equipment grant	<u>(6,982)</u>
Subtotal	<u>(597,733)</u>
Total	\$ <u>(928,993)</u>

The deficits in these funds will be eliminated through future general fund appropriations, intergovernmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's policy is to minimize custodial credit risk by limiting unsecured bank deposits to no more than 5% of an institution's assets and no more than 10% of the Town's total cash.

As of June 30, 2015, none of the Town's bank balance of \$5,801,331 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. Investments are governed by Massachusetts General Laws, Chapter 44, Sections 54 and 55, and by the Town's investment policy, which is in full compliance with these laws. The Town's investment policy allows unlimited investment in United States Treasury and Agency obligations, as these investments carry an Aaa rating. All other investments must be in investment grade securities,

a high concentration of which must be rated A or above. As of June 30, 2015, all of the Town's investments are in compliance with these policies. Presented below is the actual Moody's rating as of June 30, 2015 for each investment type of the Town (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
				<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>Baa1</u>
Certificates of deposit	\$ 2,078	N/A	\$ 2,078	\$ -	\$ -	\$ -	\$ -
U.S. Treasury notes	651	N/A	-	651	-	-	-
Federal agency securities	893	N/A	-	893	-	-	-
Corporate bonds	673	N/A	-	-	283	189	201
Corporate equities	1,002	N/A	1,002	-	-	-	-
Mutual funds	360	N/A	360	-	-	-	-
State investment pool	879	N/A	879	-	-	-	-
Total investments	<u>\$ 6,536</u>		<u>\$ 4,319</u>	<u>\$ 1,544</u>	<u>\$ 283</u>	<u>\$ 189</u>	<u>\$ 201</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 investments. The Town reviews its investment firms' financial statements and the background of sales representatives, which limits exposure to only those institutions with proven financial strength, capital adequacy, and an overall affirmative reputation in the municipal industry. The Town's investment policy also requires that all securities be held in the Town's name and federal tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. In addition, as of June 30, 2015, all of the Town's investments were held in financial institutions that are members of the Securities Investor Protection Corporation (SIPC).

As of June 30, 2015, none of the Town's investments were subject to custodial credit risk.

C. Concentration of Credit Risk

The Town's investment policy includes a diversification concept that prohibits the over-concentration of investments in a specific instrument-type and issuer by limiting investments (other than U.S. Treasury and U.S. Agency obligations or investments fully collateralized by U.S. Treasuries or U.S. Agencies) to no more than 5% of an institution's assets and no more than 10% of the Town's cash.

As of June 30, 2015, the Town had no investments in any one issuer that exceeded these limits.

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's investment policy includes a diversification concept that prohibits the over-concentration of investment maturities; however, the Town places no limit on the length of maturity from date of purchase for Community Preservation, Stabilization, and Trust funds that are invested in U.S. Treasuries or U.S. Agency obligations that may be sold prior to maturity. As of June 30, 2015, the Town's investments are in compliance with these policies.

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</u> <u>(in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 2,078	\$ 1,502	\$ 576
U.S. Treasury notes	651	-	651
Federal agency securities	893	-	893
Corporate bonds	<u>673</u>	<u>231</u>	<u>442</u>
Total	<u>\$ 4,295</u>	<u>\$ 1,733</u>	<u>\$ 2,562</u>

5. Taxes Receivable

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

The Town typically issues demand bills to delinquent taxpayers within one week of the original bill due date. Fourteen days after the demand notice has been sent the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2015 consist of the following:

Real estate	\$ 180,093
Personal property	750
Community preservation	3,734
Tax liens foreclosed	<u>7,116</u>
Total	<u>\$ 191,693</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Excises	\$ 14,346

7. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 389	\$ 75	\$ -	\$ 464
Buildings and building improvements	21,208	297	-	21,505
Machinery, equipment, and vehicles	4,361	987	(65)	5,283
Infrastructure	<u>33,415</u>	<u>793</u>	<u>-</u>	<u>34,208</u>
Total capital assets, being depreciated	59,373	2,152	(65)	61,460
Less accumulated depreciation for:				
Land improvements	(139)	(24)	-	(163)
Buildings and building improvements	(8,361)	(586)	-	(8,947)
Machinery, equipment, and vehicles	(2,504)	(340)	55	(2,789)
Infrastructure	<u>(12,537)</u>	<u>(891)</u>	<u>-</u>	<u>(13,428)</u>
Total accumulated depreciation	<u>(23,541)</u>	<u>(1,841)</u>	<u>55</u>	<u>(25,327)</u>
Total capital assets, being depreciated, net	35,832	311	(10)	36,133
Capital assets, not being depreciated:				
Land	19,636	945	-	20,581
Construction in progress	<u>581</u>	<u>2</u>	<u>(573)</u>	<u>10</u>
Total capital assets, not being depreciated	<u>20,217</u>	<u>947</u>	<u>(573)</u>	<u>20,591</u>
Governmental activities capital assets, net	<u>\$ 56,049</u>	<u>\$ 1,258</u>	<u>\$ (583)</u>	<u>\$ 56,724</u>

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

Governmental Activities:	
General government	\$ 214
Public safety	245
Education	344
Public works	1,008
Human services	2
Culture and recreation	<u>28</u>
Total depreciation expense - governmental activities	\$ <u>1,841</u>

8. Warrants Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015 as permitted by law.

9. Accrued Liabilities

Governmental activities: This balance represents the amount accrued in the current period for interest on the Town's outstanding general obligation bonds and capital leases, as well as accrued employee payroll.

Governmental funds: This balance represents accrued employee payroll.

10. Tax Refunds Payable

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

11. Notes Payable

The Town had the following bond anticipation notes outstanding at June 30, 2014:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/15</u>
Library Design	0.45%	10/03/14	10/02/15	\$ 333,500
Nason Land Acquisition	0.45%	10/03/14	10/02/15	128,500
Fire Station Drains	0.45%	10/03/14	10/02/15	<u>153,000</u>
Total				\$ <u>615,000</u>

The following summarizes activity in notes payable during fiscal year 2015:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Library Design	\$ 395,000	\$ 333,500	\$ (395,000)	\$ 333,500
Nason Land Acquisition	448,650	128,500	(448,650)	128,500
Fire Station Drains	<u>183,500</u>	<u>153,000</u>	<u>(183,500)</u>	<u>153,000</u>
Total	\$ <u>1,027,150</u>	\$ <u>615,000</u>	\$ <u>(1,027,150)</u>	\$ <u>615,000</u>

12. Capital Lease Obligations

The Town is the lessee of certain equipment under a capital lease expiring in fiscal year 2017. Future minimum lease payments under this capital lease consisted of the following as of June 30, 2015:

	Fiscal Year	Capital Leases
	2016	\$ 52,041
	2017	<u>52,041</u>
Total minimum lease payments		104,082
Less amounts representing interest		<u>2,826</u>
Present Value of Minimum Lease Payments		\$ <u>101,256</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 currently outstanding are as follows:

	Amount of Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/15
<u>Governmental Activities:</u>				
<u>Bonds payable - Inside the Debt Limit</u>				
Lockwood/Lord/Haynes land - refunding	\$ 943,000	06/15/17	2.21%	\$ 195,000
Fire truck refunding	60,000	08/15/17	0.91%	45,000
Police station refunding	1,367,000	08/15/20	1.18%	882,000
Town Hall construction refunding	1,955,000	08/15/22	1.36%	1,720,000
Sawyer/Richardson land refunding	1,393,000	08/15/22	1.38%	1,228,000
Spofford Pond Road drainage refunding	85,000	08/15/22	1.35%	75,000
Anvil Farm land acquisition	850,000	06/15/26	3.90%	500,000
Haynes land acquisition	1,900,000	06/15/27	3.94%	1,200,000
Lincoln Hall building renovations	675,000	06/15/27	3.93%	420,000
School remodeling	355,000	09/15/27	1.60%	305,000
Land acquisition	190,000	09/15/27	1.55%	160,000
Fire truck	430,000	09/15/27	1.70%	380,000
Dump truck	205,000	09/15/22	1.24%	160,000
<u>Bonds payable - Outside the Debt Limit</u>				
School construction - refunding	310,500	06/15/16	2.12%	50,000
Landfill closure - refunding	456,500	06/15/17	2.24%	105,000
Title V MWPAT - Loan 1	200,000	08/01/18	0.00%	43,472
Title V MWPAT - Loan 2	48,524	02/01/21	0.00%	16,215
Water treatment plant	400,000	09/15/27	1.70%	355,000
Total Governmental Activities:	\$ 11,823,524			\$ 7,839,687

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,088,561	\$ 228,781	\$ 1,317,342
2017	1,008,562	196,319	1,204,881
2018	858,561	164,569	1,023,130
2019	838,562	137,469	976,031
2020	817,693	112,169	929,862
2021 - 2025	2,612,748	268,669	2,881,417
2026 - 2028	615,000	29,463	644,463
Total	\$ 7,839,687	\$ 1,137,439	\$ 8,977,126

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2015:

General fund	\$ 4,991,687
Community preservation fund	2,848,000
Total	\$ 7,839,687

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/14</u>	Additions	Reductions	Total Balance <u>6/30/15</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/15</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 8,948	\$ -	\$ (1,108)	\$ 7,840	\$ (1,089)	\$ 6,751
Other:						
Capital leases payable	-	153	(52)	101	(50)	51
Compensated absences	389	25	(27)	387	(39)	348
Landfill postclosure	1,061	-	(45)	1,016	(46)	970
OPEB	6,552	95	-	6,647	-	6,647
Net pension liability	<u>12,390</u>	<u>-</u>	<u>(1)</u>	<u>12,389</u>	<u>-</u>	<u>12,389</u>
Totals	<u>\$ 29,340</u>	<u>\$ 273</u>	<u>\$ (1,233)</u>	<u>\$ 28,380</u>	<u>\$ (1,224)</u>	<u>\$ 27,156</u>

14. Landfill Postclosure Care Costs

The Town's landfill was closed and capped in the spring of 2001. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site of its capped landfill for thirty years after closure. These *postclosure care* costs are reported as a long-term liability in the government-wide financial statements, and a portion of the liability is expensed each year. The amount of the postclosure care liability and the portion of costs expensed each year are based on estimates provided by management. In 1999, the Town issued \$1,050,000 in general obligation bonds to fund estimated closure and monitoring costs.

15. Deferred Inflows of Resources

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

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

	Entity-wide Basis Governmental Activities	Fund Basis Governmental Funds	
		General Fund	CPA Fund
Unavailable revenues	\$ 30,127	\$ 221,265	\$ 1,981
Taxes collected in advance	59,115	57,222	1,893
Net difference between projected and actual earnings on pension plan investments	<u>53,881</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 143,123</u>	<u>\$ 278,487</u>	<u>\$ 3,874</u>

16. **Restricted Net Position**

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

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

17. **Governmental Funds - Balances**

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

The Town has 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 as of June 30, 2015:

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

Restricted - Represents amounts that are restricted to specific purposes by constraints externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes Community Preservation funds, various special revenue and expendable trust funds, capital projects funded by borrowing and state grants, and the income portion of permanent funds.

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

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

remaining balance of premiums received on the issuance of excluded debt, and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned – Represents amounts that are available to spend in future periods. This fund balance classification includes general fund surplus fund balance and various special revenue and capital project temporary deficit fund balances.

Following is a breakdown of the Town's fund balance as of June 30, 2015:

	General Fund	Community Preservation Fund	Library Design Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 5,070	\$ 5,070
Total Nonspendable	-	-	-	5,070	5,070
Restricted					
Community preservation funds	-	3,848,999	-	-	3,848,999
Special revenue funds:					
School revolving funds	-	-	-	474,879	474,879
Town revolving funds	-	-	-	157,662	157,662
Federal grants	-	-	-	31,382	31,382
State grants	-	-	-	58,089	58,089
Gifts	-	-	-	58,939	58,939
Expendable trust funds	-	-	-	57,710	57,710
Capital projects funded by borrowing	-	-	-	187,468	187,468
Expendable permanent funds	-	-	-	8,763	8,763
Total Restricted	-	3,848,999	-	1,034,892	4,883,891
Committed					
Expendable trust funds	-	-	-	67,288	67,288
Capital projects funded by appropriation	-	-	-	14,441	14,441
Article carryforwards	457,654	-	-	-	457,654
Total Committed	457,654	-	-	81,729	539,383
Assigned					
Encumbrances	347,039	-	-	-	347,039
Designated fund balance	25,776	-	-	-	25,776
Appropriated fund balance	502,239	-	-	-	502,239
Total Assigned	875,054	-	-	-	875,054
Unassigned					
General fund	3,299,365	-	-	-	3,299,365
Stabilization fund	791,748	-	-	-	791,748
Special revenue fund deficits	-	-	-	(6,982)	(6,982)
Capital project fund deficits	-	-	(331,260)	(590,751)	(922,011)
Total Unassigned	4,091,113	-	(331,260)	(597,733)	3,162,120
Total Fund Balances	\$ 5,423,821	\$ 3,848,999	\$ (331,260)	\$ 523,958	\$ 9,465,518

18. **General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal

Accounting System (UMAS). The following paragraphs summarize the major differences.

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.

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	\$ 4,091,113
Snow and ice deficit	151,581
Appellate tax board cases	247,579
Stabilization fund	<u>(791,748)</u>
Statutory (UMAS) Balance	<u><u>\$ 3,698,525</u></u>

19. **Subsequent Events**

Debt

Subsequent to June 30, 2015, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds	\$ 1,202,000	2.0% - 4.0%	10/01/15	10/01/25

20. **Commitments and Contingencies**

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

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

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

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment 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 them. 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 in Note 22, the Town provides post-employment medical and prescription drug benefits for eligible retirees. The benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2013, the most recent actuarial valuation date, approximately 191 active and 101 retirees/disabled employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides comprehensive medical insurance to all eligible retirees through a variety of plans from Blue Cross Blue Shield of Massachusetts. All active employees who retire from the Town and meet the eligibility criteria are eligible to receive these benefits.

C. Funding Policy

Retirees contribute between 21% and 50% for Individual and Family medical plans, depending on the chosen coverage level and plan. The Town contributes the remainder of all retiree health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal year 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 1,332,591
Interest on net OPEB obligation	262,074
Adjustment to ARC	(364,321)
Amortization of actuarial (gains) / losses	<u>(497,828)</u>
Annual OPEB cost	732,516
Expected employer contributions	(437,179)
Contribution to trust fund over 30 years	<u>(200,000)</u>
Increase (decrease) in net OPEB obligation	95,337
Net OPEB obligation - beginning of year	<u>6,551,852</u>
Net OPEB obligation - end of year	<u><u>\$ 6,647,189</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2015 fiscal year and the two preceding years 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>
2013	\$ 1,660,693	30.47%	\$ 6,567,154
2014	\$ 671,984	102.28%	\$ 6,551,852
2015	\$ 732,516	86.98%	\$ 6,647,189

The Town's net OPEB obligation as of June 30, 2015 is recorded as a noncurrent liability in the Statement of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 10,909,192
Actuarial value of plan assets	<u>283,207</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 10,625,985</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>2.6%</u></u>
Covered payroll (active plan members)	<u><u>\$ 9,961,028</u></u>
UAAL as a percentage of covered payroll	<u><u>106.7%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future

employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to 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 substantive plan (the plan as understood by the Town and 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial value of assets is equal to the market value of the plan's assets. The actuarial assumptions included a 4.0% investment rate of return and an FY 2013 healthcare trend rate of 6.0% graded down to 5.0% through FY 2015. It was assumed that 80% of employees eligible to receive retirement benefits would enroll in the retiree medical plans upon retirement. The UAAL is amortized at 4.5% per year over a period of thirty years at transition, with annual compensation increases of 3.0% and a general inflation assumption of 2.5% per annum. As of July 1, 2013, the most recent actuarial valuation date, the Town's remaining amortization period was 24 years.

G. Masconomet Regional School District – Unfunded OPEB Liability

The Town is a member of the Masconomet Regional School District (District). As of July 1, 2012, the District's most recent actuarial valuation, the District's unfunded actuarially accrued OPEB liability was \$44,920,000, which will be funded by future operating assessments to the District's member towns. In fiscal year 2015, the Town's portion of the District's annual operating assessment was 38.06%.

22. Essex Regional 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 Town employees (except teachers and administrators under contract employed by the School Department) are members of the Essex Regional Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System, which provides pension benefits, deferred allowances, and death and disability benefits. The System's authority is established by Chapter 32 of the Massachusetts General Laws, which also governs member contribution percentages and benefits paid. The System's Board of Directors does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publically available at the System's administrative offices at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025. Reports are also available on the System's website at www.essexregional.com.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of creditable service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service; (2) was on the Town's payroll on January 1, 1978; (3) voluntarily left Town employment on or after that date; and (4) left accumulated annuity deductions in the plan.

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

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which

has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of creditable service get interest credited each year at a rate of 3% and do not forfeit any interest previously earned on their contributions.

C. Contributions

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

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$936,588, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, the Town reported a liability of \$12,389,026 for its proportionate share of the System's total net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the

projected contributions of all participating employers. At December 31, 2014, the Town's proportion was 3.652%.

For the year ended June 30, 2015, the Town recognized total pension expense of \$989,366. In addition, the Town reported deferred inflows of resources related to pensions from the following source:

	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>53,881</u>
Total	\$ <u><u>53,881</u></u>

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

Year ended June 30:

2016	\$ 13,470
2017	13,470
2018	13,470
2019	<u>13,471</u>
Total	\$ <u><u>53,881</u></u>

F. Actuarial Assumptions

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

COLA	3% of the first \$13,000
Salary increases	Select and ultimate:
	Year 1 7.50%
	Year 2 6.50%
	Year 3 6.00%
	Year 4 5.50%
	Year 5 5.00%
	Thereafter 3.75%
Investment rate of return	8.00%

Mortality rates were based on the RP-2000 mortality table (sex-distinct, healthy employees for actives and healthy annuitants for retirees) pro-

jected with scale BB 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 determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage adjusted by a 3.00% inflation assumption. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Real Rate of Return Geometric Average</u>
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private Equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	<u>4.00%</u>	0.00%
Total	100.00%	

G. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions at the current contribution rate and employer contributions at rates equal to the actuarially determined contribution rates. 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.

H. Sensitivity of the Town's 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 8.00%, 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 (7.00%) or 1 percentage-point higher (9.00%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
June 30, 2015	\$ 15,312,974	\$ 12,389,026	\$ 10,036,267

I. Pension Plan Fiduciary Net Position

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

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL)

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

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

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

D. Actuarial Assumptions

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

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

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

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution

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

F. Sensitivity Analysis

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,427,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

G. Town Proportions

In fiscal year 2014, (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$14,685,326 and \$1,020,260 respectively, based on an employer allocation proportion of 0.092382%.

24. Risk Management

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

25. Beginning Net Position Restatement

The Town implemented GASB Statement No. 68 in fiscal year 2015. As a result of this implementation, the beginning (July 1, 2014) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 49,002,092
GASB 68 Implementation	<u>(12,390,129)</u>
As restated	<u><u>\$ 36,611,963</u></u>

26. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2015, as defined by GASB Statement No. 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/14 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/14 (as restated)
Nason Land Fund	\$ (15,264)	\$ 15,264	\$ -
Nonmajor Governmental Funds	<u>1,466,526</u>	<u>(15,264)</u>	<u>1,451,262</u>
Total	<u><u>\$ 1,451,262</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,451,262</u></u>

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

June 30, 2015

(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]
07/01/07	\$ -	\$ 16,188	\$ 16,188	0%	N/A	N/A
07/01/09	\$ -	\$ 15,839	\$ 15,839	0%	N/A	N/A
07/01/11	\$ -	\$ 16,318	\$ 16,318	0%	\$ 34,392	47%
07/01/13	\$ 283	\$ 10,909	\$ 10,626	3%	\$ 9,961	107%

See Independent Auditors' Report.

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

<u>Essex Regional Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability	3.652%
Proportionate share of the net pension liability	\$ 12,389,026
Covered-employee payroll	\$ 4,880,552
Proportionate share of the net pension liability as a percentage of covered-employee payroll	253.8%
Plan fiduciary net position as a percentage of the total pension liability	52.3%

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

See Independent Auditors' Report.

TOWN OF BOXFORD, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Essex Regional Retirement System:</u>	<u>2015</u>
Contractually required contribution	\$ 936,588
Contributions in relation to the contractually required contribution	<u>936,588</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 4,880,552
Contributions as a percentage of covered-employee payroll	<u>19.2%</u>
<u>Massachusetts Teachers' Retirement System:</u>	
Town's proportionate share of Massachusetts' Teachers Retirement System pension expense funded by the Commonwealth of Massachusetts on behalf of the Town	<u>\$ 1,020,260</u>

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

See Independent Auditors' Report.