

TOWN OF LUDLOW, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Notes to Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of OPEB Funding Progress	60
Schedule of Proportionate Share of the Net Pension Liability	61
Schedule of Pension Contributions	62

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Ludlow, Massachusetts

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

June 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities include general government, public safety, education, public works, health and human services, employee benefits, interest, and intergovernmental. The business-type activities include golf course, landfill and sewer activities.

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

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of liabilities exceeded assets by \$(6,707,386) (i.e., net position), a change of \$(6,407,906) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$11,668,206, a change of \$(1,160,670) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,441,600, a change of \$(547,060) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$12,591,873, a change of \$(993,767) 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.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 21,477,664	\$ 20,286,391	\$ 1,845,465	\$ 1,727,758	\$ 23,323,129	\$ 22,014,149
Capital assets	46,344,161	47,231,844	10,580,870	10,896,962	56,925,031	58,128,806
Deferred outflows	2,286,037	233,518	33,181	1,739	2,319,218	235,257
Total Assets and Deferred Outflows of Resources	70,107,862	67,751,753	12,459,516	12,626,459	82,567,378	80,378,212
Long-term liabilities outstanding	73,083,105	68,169,786	6,169,351	6,237,782	79,252,456	74,407,568
Other liabilities	8,189,656	5,855,964	283,878	154,350	8,473,534	6,010,314
Deferred inflows	1,537,191	250,716	11,583	9,094	1,548,774	259,810
Total Liabilities and Deferred Inflows of Resources	82,809,952	74,276,466	6,464,812	6,401,226	89,274,764	80,677,692
Net assets:						
Invested in capital assets, net	36,115,565	37,712,317	6,279,359	6,336,556	42,394,924	44,048,873
Restricted	4,916,793	4,863,365	-	-	4,916,793	4,863,365
Unrestricted	(53,734,448)	(49,100,395)	(284,655)	(111,323)	(54,019,103)	(49,211,718)
Total Net Position	\$ (12,702,090)	\$ (6,524,713)	\$ 5,994,704	\$ 6,225,233	\$ (6,707,386)	\$ (299,480)

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,232,101	\$ 3,950,042	\$ 2,265,620	\$ 2,198,851	\$ 6,497,721	\$ 6,148,893
Operating grants and contributions	21,359,830	20,433,198	-	-	21,359,830	20,433,198
Capital grants and contributions	928,545	1,407,329	-	-	928,545	1,407,329
General revenues:						
Property taxes	35,330,129	33,203,735	-	-	35,330,129	33,203,735
Excises	2,547,624	2,409,579	-	-	2,547,624	2,409,579
Penalties, interest on taxes	1,982,522	1,947,107	-	-	1,982,522	1,947,107
Grants and contributions not restricted	3,152,757	3,089,189	-	-	3,152,757	3,089,189
Investment income	86,210	60,502	1,085	279	87,295	60,781
Other	10,349	373	8,310	-	18,659	373
Total Revenues	<u>69,630,067</u>	<u>66,501,054</u>	<u>2,275,015</u>	<u>2,199,130</u>	<u>71,905,082</u>	<u>68,700,184</u>
Expenses:						
General government	3,218,809	3,212,498	-	-	3,218,809	3,212,498
Public safety	7,761,819	7,731,991	-	-	7,761,819	7,731,991
Education	38,130,556	35,669,162	-	-	38,130,556	35,669,162
Public works	5,890,074	6,214,104	-	-	5,890,074	6,214,104
Health and human services	1,081,493	1,119,508	-	-	1,081,493	1,119,508
Culture and recreation	1,152,167	981,296	-	-	1,152,167	981,296
Employee benefits	17,290,350	15,384,875	-	-	17,290,350	15,384,875
Interest on long-term debt	374,628	396,719	-	-	374,628	396,719
Intergovernmental	825,496	662,346	-	-	825,496	662,346
Golf operations	-	-	799,938	839,570	799,938	839,570
Landfill operations	-	-	650	7,110	650	7,110
Sewer operations	-	-	1,737,008	1,644,285	1,737,008	1,644,285
Total expenses	<u>75,725,392</u>	<u>71,372,499</u>	<u>2,537,596</u>	<u>2,490,965</u>	<u>78,262,988</u>	<u>73,863,464</u>
Change in net position before transfers	(6,095,325)	(4,871,445)	(262,581)	(291,835)	(6,357,906)	(5,163,280)
Transfer in / (out)	<u>(82,052)</u>	<u>(93,682)</u>	<u>32,052</u>	<u>93,682</u>	<u>(50,000)</u>	<u>-</u>
Change in net position	(6,177,377)	(4,965,127)	(230,529)	(198,153)	(6,407,906)	(5,163,280)
Net position - beginning of year	<u>(6,524,713)</u>	<u>(1,559,586)</u>	<u>6,225,233</u>	<u>6,423,386</u>	<u>(299,480)</u>	<u>4,863,800</u>
Net position - end of year	<u>\$ (12,702,090)</u>	<u>\$ (6,524,713)</u>	<u>\$ 5,994,704</u>	<u>\$ 6,225,233</u>	<u>\$ (6,707,386)</u>	<u>\$ (299,480)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(6,707,386), a change of \$(6,407,906) from the prior year.

By far the largest portion of net position, \$42,394,924 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that

the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$4,916,793 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(53,734,448) in governmental activities and \$(284,655) in business-type activities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(6,177,377). Key elements of this change are as follows:

General fund change further explained in Section D	\$ 320,368
Capital project fund expenditures over revenues and other sources (Town)	(747,005)
Capital project fund expenditures (School)	(787,461)
Grant, revolving and trust fund revenues and transfers in in excess of expenditures and transfers out	53,428
Depreciation expense, (not budgeted for) more than principal debt and capital lease payments (included in budget)	(2,129,279)
Capitalized expenditures funded by general operating revenues and grants	2,066,993
Increase in OPEB liability	(4,037,781)
Change in net pension liability, net of deferrals	(768,408)
Other revenue and expense accruals	(148,232)
Total	<u>\$ (6,177,377)</u>

Business-Type Activities. Business-type activities for the year resulted in a decrease in net position of \$(230,529), primarily relating to the sewer fund. Key elements of this change are as follows:

Golf operations	\$ (82,200)
Landfill operations	(213)
Sewer operations	<u>(148,116)</u>
Total	<u>\$ (230,529)</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$11,668,206, a change of \$(1,160,670) in comparison with the prior year. This change was the result of:

General fund change (detailed below)	\$ 320,368
Capital project fund expenditures over revenues and other sources (Town)	(747,005)
Capital project fund expenditures (School)	(787,461)
Grant and revolving revenues and transfers in in excess of expenditures and transfers out	(3,624)
Trust fund revenues and transfers in in excess of expenditures and transfers out	<u>57,052</u>
Total governmental fund change	<u>\$ (1,160,670)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,441,600, while total fund balance was \$8,233,673. 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>2016</u>	<u>2015</u>	<u>Change</u>	% of Total 2016 General Fund Expenditures
Unassigned - general fund	\$ 1,577,747	\$ 1,729,719	\$ (151,972)	2.7%
Unassigned - stabilization fund	<u>2,863,853</u>	<u>3,258,941</u>	<u>(395,088)</u>	<u>4.8%</u>
Total unassigned fund balance	\$ 4,441,600	\$ 4,988,660	\$ (547,060)	7.5%
Total fund balance	\$ 8,233,673	\$ 7,913,305	\$ 320,368	13.9%

The fund balance of the general fund changed by \$320,368 during the current fiscal year. Key factors in this change are as follows:

Revenues (on a budgetary basis) were more than anticipated	\$ 588,067
Expenditures were under budget	473,145
Property tax revenue collected was more than budget	148,508
Expenditures in the current year, funded by a previous year budget	(799,107)
Current year expenditure carryforwards to be expended in a subsequent year	1,163,029
Use of surplus, prior year encumbrances, overlay surplus and debt exclusion reserve in funding appropriations	(1,179,313)
Prior year expenses (snow and ice deficit) raised in the current year	218,712
Other GAAP accruals	102,415
Change in Stabilization fund	<u>(395,088)</u>
	<u>\$ 320,368</u>

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

Total net position of the enterprise funds at the end of the year amounted to \$5,994,704, a change of \$(230,529) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$66,975, which consists of:

Increase in building infrastructure fund	\$ 41,975
Increase in Police overtime	<u>25,000</u>
	<u>\$ 66,975</u>

All of this increase was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$56,925,031 (net of accumulated depreciation), a decrease of \$(1,203,775) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

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

Depreciation expense for governmental activities	\$ (3,163,496)
Depreciation expense for business-type activities	(316,092)
Purchase of two vehicles for the Police department	56,732
Public safety complex roof repairs and replacement	747,007
East School Street roof and boiler replacement	787,461
Ludlow High School tennis courts and bleacher repairs	68,456
Construction of modular classroom buildings for school	314,810
Purchase studio and library equipment	70,398
Land acquired through tax foreclosure	22,129
Purchase of a truck for DPW, financed through a capital lease	<u>208,820</u>
	<u>\$ (1,203,775)</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$12,591,873, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Ludlow'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:

Ms. Ellie Villano
Town Administrator
Town of Ludlow
488 Chapin Street
Ludlow, MA 01056

TOWN OF LUDLOW, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 15,414,997	\$ 1,734,231	\$ 17,149,228
Investments	3,442,113	-	3,442,113
Receivables, net of allowance for uncollectibles:			
Property taxes	568,542	-	568,542
Excises	324,366	-	324,366
User fees	-	111,234	111,234
Departmental and other	344,246	-	344,246
Intergovernmental	1,115,220	-	1,115,220
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	268,180	-	268,180
Land and construction in progress	2,896,618	1,107,900	4,004,518
Capital assets, net of accumulated depreciation	43,447,543	9,472,970	52,920,513
DEFERRED OUTFLOWS OF RESOURCES	<u>2,286,037</u>	<u>33,181</u>	<u>2,319,218</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	70,107,862	12,459,516	82,567,378
LIABILITIES			
Current:			
Warrants payable	1,269,595	-	1,269,595
Accounts payable	19,498	242,171	261,669
Accrued payroll and withholdings	4,677,516	8,363	4,685,879
Accrued interest payable	43,885	33,344	77,229
Note payable	2,173,769	-	2,173,769
Other current liabilities	5,393	-	5,393
Current portion of long-term liabilities:			
Bonds payable	732,350	260,765	993,115
Capital lease payable	162,461	23,052	185,513
Noncurrent:			
Bonds payable, net of current portion	7,581,064	4,017,694	11,598,758
Capital lease payable, net of current portion	270,461	-	270,461
Compensated absences	1,334,608	-	1,334,608
Net OPEB obligation	23,364,907	1,266,199	24,631,106
Net pension liability	39,637,254	601,641	40,238,895
DEFERRED INFLOWS OF RESOURCES	<u>1,537,191</u>	<u>11,583</u>	<u>1,548,774</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	82,809,952	6,464,812	89,274,764
NET POSITION			
Invested in capital assets, net of related debt	36,115,565	6,279,359	42,394,924
Restricted for:			
State and federal grants	3,414,226	-	3,414,226
Permanent funds:			
Nonexpendable	1,314,281	-	1,314,281
Expendable	188,286	-	188,286
Unrestricted	<u>(53,734,448)</u>	<u>(284,655)</u>	<u>(54,019,103)</u>
TOTAL NET POSITION	<u>\$ (12,702,090)</u>	<u>\$ 5,994,704</u>	<u>\$ (6,707,386)</u>

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

TOWN OF LUDLOW, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,218,809	\$ 783,039	\$ 23,454	\$ -	\$ (2,412,316)	\$ -	\$ (2,412,316)
Public safety	7,761,819	1,752,267	23,096	-	(5,986,456)	-	(5,986,456)
Education	38,130,556	973,100	21,156,466	-	(16,000,990)	-	(16,000,990)
Public works	5,890,074	330,912	6,850	928,545	(4,623,767)	-	(4,623,767)
Health and human services	1,081,493	285,571	48,989	-	(746,933)	-	(746,933)
Culture and recreation	1,152,167	107,212	100,975	-	(943,980)	-	(943,980)
Employee benefits	17,290,350	-	-	-	(17,290,350)	-	(17,290,350)
Interest	374,628	-	-	-	(374,628)	-	(374,628)
Intergovernmental	825,496	-	-	-	(825,496)	-	(825,496)
Total Governmental Activities	75,725,392	4,232,101	21,359,830	928,545	(49,204,916)	-	(49,204,916)
Business-Type Activities:							
Golf operations	799,938	708,791	-	-	-	(91,147)	(91,147)
Landfill operations	650	-	-	-	-	(650)	(650)
Sewer operations	1,737,008	1,556,829	-	-	-	(180,179)	(180,179)
Total Business-Type Activities	2,537,596	2,265,620	-	-	-	(271,976)	(271,976)
Total All	<u>\$ 78,262,988</u>	<u>\$ 6,497,721</u>	<u>\$ 21,359,830</u>	<u>\$ 928,545</u>	(49,204,916)	(271,976)	(49,476,892)
General Revenues and Transfers:							
Property taxes					35,330,129	-	35,330,129
Excises					2,547,624	-	2,547,624
Penalties, interest and other taxes					1,982,522	-	1,982,522
Grants and contributions not restricted to specific programs					3,152,757	-	3,152,757
Investment income					86,210	1,085	87,295
Miscellaneous					10,349	8,310	18,659
Transfers in (out)					(82,052)	32,052	(50,000)
Total General Revenues and Transfers					43,027,539	41,447	43,068,986
Change in Net Position					(6,177,377)	(230,529)	(6,407,906)
Net Position:							
Beginning of year					(6,524,713)	6,225,233	(299,480)
End of year					<u>\$ (12,702,090)</u>	<u>\$ 5,994,704</u>	<u>\$ (6,707,386)</u>

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

TOWN OF LUDLOW, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Capital Project Fund (Town)</u>	<u>Capital Project Fund (School)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 11,429,428	\$ 424,399	\$ 135,090	\$ 3,426,080	\$ 15,414,997
Investments	1,999,876	-	-	1,442,237	3,442,113
Receivables:					
Property taxes	618,003	-	-	-	618,003
Tax liens and foreclosures	451,299	-	-	-	451,299
Excises	349,789	-	-	-	349,789
Departmental and other	415,869	-	-	9,400	425,269
Intergovernmental	258,759	-	-	856,461	1,115,220
TOTAL ASSETS	\$ 15,523,023	\$ 424,399	\$ 135,090	\$ 5,734,178	\$ 21,816,690
LIABILITIES					
Liabilities:					
Warrants payable	\$ 613,128	\$ -	\$ 602,251	\$ 54,216	\$ 1,269,595
Accounts payable	-	-	19,498	-	19,498
Accrued payroll and withholdings	4,677,516	-	-	-	4,677,516
Note payable	-	1,120,000	300,000	753,769	2,173,769
Other liabilities	5,393	-	-	-	5,393
TOTAL LIABILITIES	5,296,037	1,120,000	921,749	807,985	8,145,771
DEFERRED INFLOWS OF RESOURCES	1,993,313	-	-	9,400	2,002,713
FUND BALANCES					
Non-spendable	-	-	-	1,314,281	1,314,281
Restricted	-	51,405	802	4,083,992	4,136,199
Committed	1,492,599	-	-	-	1,492,599
Assigned	2,299,474	-	-	-	2,299,474
Unassigned	4,441,600	(747,006)	(787,461)	(481,480)	2,425,653
TOTAL FUND BALANCES	8,233,673	(695,601)	(786,659)	4,916,793	11,668,206
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 15,523,023	\$ 424,399	\$ 135,090	\$ 5,734,178	\$ 21,816,690

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

TOWN OF LUDLOW, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$ 11,668,206
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,344,161
<ul style="list-style-type: none">• Certain changes in net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	648,846
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles).	1,663,687
<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.	(43,885)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, capital leases, other post-employment benefits, and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(73,083,105)
<ul style="list-style-type: none">• As noted above, bonds payable are not reported in the governmental funds. Accordingly, deferred loss on early retirement of debt, resulting from an advance refunding, is also not recorded in governmental funds.	<u>100,000</u>
Net Position of Governmental Activities	\$ <u>(12,702,090)</u>

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

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

	General	Capital Project Fund (Town)	Capital Project Fund (School)	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 35,280,308	\$ -	\$ -	\$ -	\$ 35,280,308
Excises	2,432,096	-	-	-	2,432,096
Penalties, interest and other taxes	1,982,859	-	-	-	1,982,859
Charges for services	2,149,918	-	-	1,564,884	3,714,802
Intergovernmental	17,042,086	-	-	3,701,671	20,743,757
Licenses and permits	604,950	-	-	-	604,950
Fines and forfeitures	44,216	-	-	-	44,216
Investment income	64,730	-	-	21,480	86,210
Miscellaneous	10,349	-	-	-	10,349
Total Revenues	59,611,512	-	-	5,288,035	64,899,547
Expenditures:					
Current:					
General government	2,934,382	-	-	229,041	3,163,423
Public safety	7,485,104	747,005	-	70,451	8,302,560
Education	28,931,996	-	787,461	3,763,736	33,483,193
Public works	3,647,720	208,820	-	1,008,453	4,864,993
Health and human services	979,697	-	-	49,415	1,029,112
Culture and recreation	846,436	-	-	68,398	914,834
Employee benefits	12,484,161	-	-	-	12,484,161
Debt service	1,119,213	-	-	-	1,119,213
Intergovernmental	825,496	-	-	-	825,496
Total Expenditures	59,254,205	955,825	787,461	5,189,494	66,186,985
Excess (deficiency) of revenues over expenditures	357,307	(955,825)	(787,461)	98,541	(1,287,438)
Other Financing Sources (Uses):					
Capital lease proceeds	-	208,820	-	-	208,820
Transfers in	109,613	-	-	3,000	112,613
Transfers out	(146,552)	-	-	(48,113)	(194,665)
Total Other Financing Sources (Uses)	(36,939)	208,820	-	(45,113)	126,768
Change in fund balance	320,368	(747,005)	(787,461)	53,428	(1,160,670)
Fund Equity, at Beginning of Year, as reclassified	7,913,305	51,404	802	4,863,365	12,828,876
Fund Equity, at End of Year	\$ 8,233,673	\$ (695,601)	\$ (786,659)	\$ 4,916,793	\$ 11,668,206

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

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

Net Changes In Fund Balances - Total Governmental Funds	\$ (1,160,670)																		
<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</td><td style="text-align: right;">2,275,813</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(3,163,496)</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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, (net of allowance). <div style="text-align: right;">11,016</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 assets: <table> <tr> <td>Repayments of bonds</td><td style="text-align: right;">757,350</td></tr> <tr> <td>Repayments of capital lease obligations</td><td style="text-align: right;">276,867</td></tr> <tr> <td>Issuance of capital lease</td><td style="text-align: right;">(208,820)</td></tr> <tr> <td>Amortization of deferred loss on early retirement of debt</td><td style="text-align: right;">(20,000)</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;">7,235</div> Some expenses reported in the Statement of Activities, such as compensated absences, other post-employment benefits (OPEB), and net pension liability do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Change in compensated absence liability</td><td style="text-align: right;">(146,483)</td></tr> <tr> <td>Change in OPEB liability</td><td style="text-align: right;">(4,037,781)</td></tr> <tr> <td>Change in net pension liability, net of deferrals</td><td style="text-align: right;"><u>(768,408)</u></td></tr> </table> 	Capital outlay purchases	2,275,813	Depreciation	(3,163,496)	Repayments of bonds	757,350	Repayments of capital lease obligations	276,867	Issuance of capital lease	(208,820)	Amortization of deferred loss on early retirement of debt	(20,000)	Change in compensated absence liability	(146,483)	Change in OPEB liability	(4,037,781)	Change in net pension liability, net of deferrals	<u>(768,408)</u>	
Capital outlay purchases	2,275,813																		
Depreciation	(3,163,496)																		
Repayments of bonds	757,350																		
Repayments of capital lease obligations	276,867																		
Issuance of capital lease	(208,820)																		
Amortization of deferred loss on early retirement of debt	(20,000)																		
Change in compensated absence liability	(146,483)																		
Change in OPEB liability	(4,037,781)																		
Change in net pension liability, net of deferrals	<u>(768,408)</u>																		
Change In Net Position of Governmental Activities	\$ <u>(6,177,377)</u>																		

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

TOWN OF LUDLOW, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 35,131,800	\$ 35,131,800	\$ 35,131,800	\$ -
Excise	2,404,000	2,404,000	2,432,096	28,096
Penalties, interest and other taxes	1,872,500	1,872,500	1,982,859	110,359
Charges for services	2,086,850	2,086,850	2,149,918	63,068
Intergovernmental	16,898,375	16,898,375	17,042,086	143,711
Licenses and permits	367,000	367,000	604,950	237,950
Fines and forfeits	50,500	50,500	44,216	(6,284)
Investment income	9,000	9,000	9,818	818
Miscellaneous	-	-	10,349	10,349
Transfers in	559,613	559,613	559,613	-
Other sources	1,112,338	1,179,313	1,179,313	-
Total Revenues and Other Sources	60,491,976	60,558,951	61,147,018	588,067
Expenditures and Other Uses:				
General government	3,142,167	3,095,144	2,967,765	127,379
Public safety	7,627,856	7,739,130	7,575,355	163,775
Education	29,269,956	29,287,208	29,198,208	89,000
Public works	3,609,044	3,609,716	3,697,820	(88,104)
Health and human services	1,125,990	1,082,490	1,005,481	77,009
Culture and recreation	802,188	845,228	841,557	3,671
Debt service	1,300,561	1,190,561	1,119,213	71,348
Intergovernmental	773,515	773,515	825,496	(51,981)
Employee benefits	12,473,435	12,570,695	12,489,647	81,048
Transfers out	148,552	146,552	146,552	-
Other uses	218,712	218,712	218,712	-
Total Expenditures and Other Uses	60,491,976	60,558,951	60,085,806	473,145
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,061,212	\$ 1,061,212

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

TOWN OF LUDLOW, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Golf Fund	Landfill Fund	Sewer Fund	Total
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 170,830	\$ 60,785	\$ 1,502,616	\$ 1,734,231
User fee receivable	-	-	111,234	111,234
Total current assets	170,830	60,785	1,613,850	1,845,465
Noncurrent:				
Land	1,107,900	-	-	1,107,900
Capital assets, net of accumulated depreciation	623,568	-	8,849,402	9,472,970
DEFERRED OUTFLOWS OF RESOURCES	<u>26,454</u>	<u>-</u>	<u>6,727</u>	<u>33,181</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,928,752	60,785	10,469,979	12,459,516
<u>LIABILITIES</u>				
Current:				
Accounts payable	6,942	-	235,229	242,171
Accrued payroll	6,301	-	2,062	8,363
Accrued interest payable	-	-	33,344	33,344
Bonds payable	-	-	260,765	260,765
Capital lease payable	23,052	-	-	23,052
Noncurrent:				
Bonds payable, net of current portion	-	-	4,017,694	4,017,694
Net OPEB obligation	235,352	-	1,030,847	1,266,199
Net pension liability	479,668	-	121,973	601,641
DEFERRED INFLOWS OF RESOURCES	<u>9,235</u>	<u>-</u>	<u>2,348</u>	<u>11,583</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	760,550	-	5,704,262	6,464,812
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	1,708,416	-	4,570,943	6,279,359
Unrestricted	(540,214)	60,785	194,774	(284,655)
TOTAL NET POSITION	<u>\$ 1,168,202</u>	<u>\$ 60,785</u>	<u>\$ 4,765,717</u>	<u>\$ 5,994,704</u>

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

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

	Business-Type Activities Enterprise Funds			
	Golf Fund	Landfill Fund	Sewer Fund	Total
Operating Revenues:				
Charges for services	\$ 708,791	\$ -	\$ 1,556,829	\$ 2,265,620
Total Operating Revenues	708,791	-	1,556,829	2,265,620
Operating Expenses:				
Salaries and wages	325,664	-	134,720	460,384
Operating expenses	315,366	-	1,000,639	1,316,005
Depreciation	68,817	-	247,275	316,092
Administration	89,013	-	273,498	362,511
Other	1,078	650	-	1,728
Total Operating Expenses	799,938	650	1,656,132	2,456,720
Operating Income (Loss)	(91,147)	(650)	(99,303)	(191,100)
Nonoperating Revenues (Expenses):				
Investment income	637	437	11	1,085
Interest expense	-	-	(80,876)	(80,876)
Other	8,310	-	-	8,310
Total Nonoperating Revenues (Expenses), Net	8,947	437	(80,865)	(71,481)
Change in Net Position before transfers	(82,200)	(213)	(180,168)	(262,581)
Transfer in	-	-	93,552	93,552
Transfer out	-	-	(61,500)	(61,500)
Change in Net Position	(82,200)	(213)	(148,116)	(230,529)
Net Position at Beginning of Year	1,250,402	60,998	4,913,833	6,225,233
Net Position at End of Year	\$ 1,168,202	\$ 60,785	\$ 4,765,717	\$ 5,994,704

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

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

	Business-Type Activities Enterprise Funds			
	<u>Golf Fund</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 708,791	\$ -	\$ 1,569,635	\$ 2,278,426
Payments to vendors and employees	<u>(715,406)</u>	<u>(650)</u>	<u>(1,136,178)</u>	<u>(1,852,234)</u>
Net Cash Provided by / (Used for) Operating Activities	(6,615)	(650)	433,457	426,192
<u>Cash Flows From Non-Capital Financing Activities</u>				
Other non-operating income	8,310	-	-	8,310
Transfers out	-	-	(61,500)	(61,500)
Transfers in	<u>-</u>	<u>-</u>	<u>93,552</u>	<u>93,552</u>
Net Cash Provided by Non-Capital Financing Activities	8,310	-	32,052	40,362
<u>Cash Flows From Capital and Related Financing Activities</u>				
Payment of long term debt principal	-	-	(236,417)	(236,417)
Payment of capital lease principal	(22,478)	-	-	(22,478)
Interest paid	<u>-</u>	<u>-</u>	<u>(78,231)</u>	<u>(78,231)</u>
Net Cash (Used for) Capital and Related Financing Activities	(22,478)	-	(314,648)	(337,126)
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>637</u>	<u>437</u>	<u>11</u>	<u>1,085</u>
Net Cash Provided by Investing Activities	<u>637</u>	<u>437</u>	<u>11</u>	<u>1,085</u>
Net Change in Cash and Short-Term Investments	(20,146)	(213)	150,872	130,513
Cash and Short Term Investments, Beginning of Year	<u>190,976</u>	<u>60,998</u>	<u>1,351,744</u>	<u>1,603,718</u>
Cash and Short Term Investments, End of Year	<u>\$ 170,830</u>	<u>\$ 60,785</u>	<u>\$ 1,502,616</u>	<u>\$ 1,734,231</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (91,147)	\$ (650)	\$ (99,303)	\$ (191,100)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	68,817	-	247,275	316,092
Changes in assets and liabilities:				
Accounts receivable	-	-	11,198	11,198
Accounts payable and accrued liabilities	3,702	-	124,789	128,491
Net OPEB obligation	25,455	-	146,580	172,035
Net pension liability, net of deferrals	<u>(13,442)</u>	<u>-</u>	<u>2,918</u>	<u>(10,524)</u>
Net Cash Provided by / (Used for) Operating Activities	<u>\$ (6,615)</u>	<u>\$ (650)</u>	<u>\$ 433,457</u>	<u>\$ 426,192</u>

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

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

	<u>Agency Funds</u>	<u>OPEB Trust Fund</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 60,667	\$ 249
Investments	-	122,455
Accounts receivable	<u>34,409</u>	<u>-</u>
Total Assets	<u>\$ 95,076</u>	<u>\$ 122,704</u>
<u>LIABILITIES</u>		
Deferred revenue	\$ 34,408	\$ -
Deposits held in custody	57,357	-
Student activity funds	83,505	-
Police outside detail	(126,769)	-
Other liabilities	<u>46,575</u>	<u>-</u>
Total Liabilities	<u>95,076</u>	<u>-</u>
<u>NET POSITION</u>		
Total Net Position	<u>\$ -</u>	<u>\$ 122,704</u>

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

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

	<u>OPEB Trust Fund</u>
Additions	
Investment income	\$ 3,864
Transfer in	<u>50,000</u>
Net increase	53,864
Net position	
Beginning of year	<u>68,840</u>
End of year	<u><u>\$ 122,704</u></u>

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

Town of Ludlow, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Ludlow (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 government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government 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 *capital project fund – Town* and *capital project fund – School* are used to account for various construction projects funded through bonding.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The *golf fund* is used to account for operations of the Town's municipal golf course.
- The *landfill fund* represents the residual balance of bond proceeds and other revenues which were used to close the Town's landfill in prior years. The fund accumulates interest which is used to fund monitoring costs. Any remaining balance is anticipated to be used for future projects related to the Town's transfer station.
- The *sewer fund* is used to account for activity related to the Town's sewer operations.

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

The *OPEB trust fund* accumulates resources for other post-employment retiree benefits for qualified employees.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in

the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" 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 2016 tax levy reflected an excess capacity of \$1,193,742.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30
Buildings	40
Building improvements	10 - 20
Vehicles	3 - 5 - 10
Office equipment	3 - 5 - 10
Computer equipment	3 - 5
Infrastructure	50

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific

future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

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

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

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic

financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general 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 with 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)	\$ 59,611,512	\$ 59,254,205
Other financing sources/uses (GAAP basis)	109,613	146,552
Reverse the effect of adding Stabilization fund to General fund per GASB 54	395,088	-
Adjust tax revenue to accrual basis	(148,508)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(799,107)
Add end of year appropriation carryforwards to expenditures	-	1,163,029
To reverse the effect of GAAP accruals	-	102,415
Recognize use of fund balance as funding source/use	<u>1,179,313</u>	<u>218,712</u>
Budgetary basis	<u>\$ 61,147,018</u>	<u>\$ 60,085,806</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and ice	\$529,116
--------------	-----------

This deficit is being covered by raising \$315,714 through taxation in fiscal year 2017 and \$213,402 in fiscal year 2018.

E. Deficit Fund Equity

The following funds were in deficit as of June 30, 2016:

Capital project fund - Town	\$ 747,006
Capital project fund - School	\$ 787,461
<u>Non-major Funds</u>	
SPED-240	\$ 217,444
Title 1 FY14	66,104
Ludlow Mills Project	52,292
Family Community Grant FY'2010	46,795
State Highway Grant Projects (Chapter 90)	33,373
Federal ARRA - IDEA EC FY2010	19,331
State 911 EMD Grant - FY'2012	15,480
DPW Material REC/Project FY'2012	15,434
SPED Early Child Alloc FY'2010	15,227
	<u>\$ 481,480</u>
<u>Agency Funds</u>	
Police outside detail	\$ 126,769

The deficits in these funds will be eliminated through future bond issues, intergovernmental revenues and/or 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 to it. Massachusetts General Laws Chapter 44, Section 55 limits 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 investment policy manages custodial credit risk by limiting deposits in accordance with MGL.

As of June 30, 2016, none of the Town's bank balance of \$15,683,175 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

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

organization (NRSROs). The Town's investment policy, adopted in fiscal year 2009, limits investments (other than U.S. Treasury/Agency obligations and State pool – MMDT) as follows:

Certificates of deposit – No limit if fully collateralized through a third party agreement; otherwise limited to each institution's insurance coverage (FDIC, DIFM, etc.)

Other unsecured bank deposits – deposits that do not fit in another category are limited to 5% of the institution's assets and no more than 10% of the government's cash. The credit worthiness of the institution is evaluated by monitoring established bank credit reporting systems.

Trust fund investments – Not more than 15% may be invested in bank stock and insurance company stock and no more than 1.5% of these funds may be invested in any one bank or insurance company.

Presented below is the actual rating as of year-end for each investment type:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of year end</u>			
			<u>AAA</u>	<u>AA2</u>	<u>Baa1</u>	<u>Baa2</u>
Certificates of deposit	\$ 1,739,038	\$ 1,739,038	\$ -	\$ -	\$ -	\$ -
Equity securities	239,083	239,083	-	-	-	-
Government securities	856,689	-	856,689	-	-	-
Mutual funds	235,239	235,239	-	-	-	-
Corporate bonds	494,519	-	25,250	183,167	246,117	39,985
Total investments	<u>\$ 3,564,568</u>	<u>\$ 2,213,360</u>	<u>\$ 881,939</u>	<u>\$ 183,167</u>	<u>\$ 246,117</u>	<u>\$ 39,985</u>

B. Custodial Credit Risk

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

All of the Town's investment of \$3,564,568 is subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk by limiting investments to financial instruments contained in Massachusetts' "List of Legal Investments".

C. Concentration of Credit Risk

The Town's investment policy limits the amount that may be invested in any one financial institution, other than U.S. Treasury obligations and State pools to 10% of the Town's total investments. Additional limitations, depending on the type of institution or funds involved, are described above. Furthermore, MGL Chapter 44, Section 55 limits the amount the Town may have on hand in any bank or trust company to 60% of the capital and surplus of such bank or trust company unless satisfactory security is given.

The Town did not invest in one issuer over 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy limits investment maturities for general (non-trust fund investments) to one year from the date of purchase. There is no maturity limit for trust fund investments.

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

<u>Investment Type</u>	<u>Total</u>	<u>Exempt From Disclosure</u>	<u>Maturity in Years</u>			
			<u>Less than 1 Year</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Over 10</u>
Certificates of deposit	\$ 1,739,038	\$ -	\$ 351,558	\$ 1,286,730	\$ 100,750	\$ -
Equity securities	239,083	239,083	-	-	-	-
Government securities	856,689	-	-	823,966	27,406	5,317
Mutual funds	235,239	235,239	-	-	-	-
Corporate bonds	494,519	-	90,427	404,092	-	-
Total investments	<u>\$ 3,564,568</u>	<u>\$ 474,322</u>	<u>\$ 441,985</u>	<u>\$ 2,514,788</u>	<u>\$ 128,156</u>	<u>\$ 5,317</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy does not address foreign currency risk, as it is not expected to apply to the Town's investments.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board

Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

		Fair Value Measurements Using:		
Description	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Corporate bonds	\$ 856,689	\$ 856,689	\$ -	\$ -
Federal securities	494,519	-	494,519	-
Equity securities	239,083	239,083	-	-
Mutual funds	235,239	235,239	-	-
Total	\$ 1,825,530	\$ 1,331,011	\$ 494,519	\$ -

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2016 consist of the following:

Real Estate		
2016	\$ 428,324	
2015	114,665	
2014 and prior	<u>3,966</u>	546,955
Personal Property		
2016	17,734	
2015	6,560	
2014 and prior	<u>40,449</u>	64,743
Betterments		<u>6,305</u>
Total		<u>\$ 618,003</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>
Property taxes	\$ 49,461
Tax title and foreclosure	183,119
Excises	25,423
Departmental	<u>81,023</u>
Total	<u>\$ 339,026</u>

7. Intergovernmental Receivables

The balance reported in governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

8. Deferred Outflow of Resources

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

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

	Entity-wide Basis		Fund Basis	
	Governmental Activities	Business-type Activities	Proprietary Funds Golf	Sewer
Loss on refunding	\$ 100,000	\$ -	\$ -	\$ -
Pension related:				
Net difference between projected and actual investment earnings	2,186,037	33,181	26,454	6,727
Total Deferred Outflow of Resources	<u>\$ 2,286,037</u>	<u>\$ 33,181</u>	<u>\$ 26,454</u>	<u>\$ 6,727</u>

9. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 3,104,315	\$ 68,456	\$ -	\$ 3,172,771
Buildings and improvements	51,245,289	-	-	51,245,289
Machinery, equipment, and furnishings	8,622,690	385,208	-	9,007,898
Vehicles	2,950,584	265,552	-	3,216,136
Infrastructure	30,689,454	-	-	30,689,454
Total capital assets, being depreciated	96,612,332	719,216	-	97,331,548
Less accumulated depreciation for:				
Land improvements	(1,721,297)	(154,868)	-	(1,876,165)
Buildings and improvements	(18,858,423)	(1,310,780)	-	(20,169,203)
Machinery, equipment, and furnishings	(7,535,735)	(357,583)	-	(7,893,318)
Vehicles	(2,101,619)	(290,167)	-	(2,391,786)
Infrastructure	(20,503,435)	(1,050,098)	-	(21,553,533)
Total accumulated depreciation	(50,720,509)	(3,163,496)	-	(53,884,005)
Total capital assets, being depreciated, net	45,891,823	(2,444,280)	-	43,447,543
Capital assets, not being depreciated:				
Land	1,165,021	22,129	-	1,187,150
Construction in progress (CIP)	175,000	1,534,468	-	1,709,468
Total capital assets, not being depreciated	1,340,021	1,556,597	-	2,896,618
Governmental activities capital assets, net	<u>\$ 47,231,844</u>	<u>\$ (887,683)</u>	<u>\$ -</u>	<u>\$ 46,344,161</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 174,565	\$ -	\$ -	\$ 174,565
Buildings and improvements	481,602	-	-	481,602
Machinery, equipment, and furnishings	1,090,908	-	-	1,090,908
Vehicles	518,010	-	-	518,010
Infrastructure	<u>11,309,742</u>	<u>-</u>	<u>-</u>	<u>11,309,742</u>
Total capital assets, being depreciated	13,574,827	-	-	13,574,827
Less accumulated depreciation for:				
Land improvements	(144,121)	(2,994)	-	(147,115)
Buildings and improvements	(376,371)	(9,672)	-	(386,043)
Machinery, equipment, and furnishings	(865,133)	(44,881)	-	(910,014)
Vehicles	(511,064)	(2,316)	-	(513,380)
Infrastructure	<u>(1,889,076)</u>	<u>(256,229)</u>	<u>-</u>	<u>(2,145,305)</u>
Total accumulated depreciation	<u>(3,785,765)</u>	<u>(316,092)</u>	<u>-</u>	<u>(4,101,857)</u>
Total capital assets, being depreciated, net	9,789,062	(316,092)	-	9,472,970
Capital assets, not being depreciated:				
Land	<u>1,107,900</u>	<u>-</u>	<u>-</u>	<u>1,107,900</u>
Total capital assets, not being depreciated	<u>1,107,900</u>	<u>-</u>	<u>-</u>	<u>1,107,900</u>
Business-type activities capital assets, net	<u>\$ 10,896,962</u>	<u>\$ (316,092)</u>	<u>\$ -</u>	<u>\$ 10,580,870</u>

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

Governmental Activities:	
General government	\$ 61,041
Public safety	366,818
Education	1,098,106
Public works	1,342,781
Human services	32,754
Culture and recreation	<u>261,996</u>
Total depreciation expense - governmental activities	<u>\$ 3,163,496</u>
Business-Type Activities:	
Golf	\$ 68,817
Sewer	<u>247,275</u>
Total depreciation expense - business-type activities	<u>\$ 316,092</u>

10. Warrants and Accounts Payable

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

11. Deferred Inflows of Resources

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

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

	Entity-wide Basis		Fund Basis			
	Governmental	Business-type	Governmental Funds		Proprietary Funds	
	<u>Activities</u>	<u>Activities</u>	<u>General</u>	<u>Non-major</u>	<u>Golf</u>	<u>Sewer</u>
Unearned revenue	\$ -	\$ -	\$ 1,993,313	\$ 9,400	\$ -	\$ -
Pension related:						
Changes in proportion and differences between contributions and proportionate share of contributions	1,537,191	11,583	-	-	9,235	2,348
Total Deferred Inflow of Resources	<u>\$ 1,537,191</u>	<u>\$ 11,583</u>	<u>\$ 1,993,313</u>	<u>\$ 9,400</u>	<u>\$ 9,235</u>	<u>\$ 2,348</u>

12. Notes Payable

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

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2016</u>
Bond anticipation	0.75%	5/25/2016	12/16/2016	\$ 1,420,000
Grant anticipation	0.74%	6/30/2016	9/30/2016	753,769
				<u>\$ 2,173,769</u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ -	\$ 2,520,000	\$ (1,100,000)	\$ 1,420,000
Grant anticipation	310,074	753,769	(310,074)	753,769
Total Governmental	<u>\$ 310,074</u>	<u>\$ 3,273,769</u>	<u>\$ (1,410,074)</u>	<u>\$ 2,173,769</u>

13. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities	Interest Rate(s) %	Amount Outstanding as of June 30, 2016
<u>Governmental Activities:</u>			
2009 multi-purpose	01/15/19	3.14	\$ 289,164
2002 multi-purpose	10/15/20	2.50 - 4.13	1,769,250
School renovations (refunding bond)	06/15/21	4.08	4,585,000
2007 multi-purpose	08/15/22	3.75 - 5.0	580,000
Middle school renovations	10/01/24	3.60 - 4.40	1,090,000
Total Governmental Activities			<u>\$ 8,313,414</u>
<u>Business-Type Activities:</u>			
2009 multi-purpose	01/15/19	3.14	\$ 25,692
2002 multi-purpose	10/15/20	2.50 - 4.13	65,750
2007 multi-purpose	08/15/22	3.75 - 5.0	140,000
Sewer construction (MWPAT 08-05)	07/15/30	2	2,736,530 *
Sewer construction (MWPAT 08-05)	07/15/32	2	806,811
Sewer construction (MWPAT 08-05-A)	07/15/36	2	503,676
Total Business-Type Activities			<u>\$ 4,278,459</u>

* 13% of this debt is being paid by the general fund to reflect the portion of project costs that benefited the Town's general infrastructure.

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 732,350	\$ 322,669	\$ 1,055,019
2018	1,812,600	295,719	2,108,319
2019	1,786,964	223,320	2,010,284
2020	1,678,000	151,472	1,829,472
2021	1,663,500	83,380	1,746,880
2022 - 2026	<u>640,000</u>	<u>46,812</u>	<u>686,812</u>
Total Governmental	<u>\$ 8,313,414</u>	<u>\$ 1,123,372</u>	<u>\$ 9,436,786</u>
<u>Business-Type</u>			
2017	\$ 260,765	\$ 87,855	\$ 348,620
2018	265,013	82,481	347,494
2019	269,604	76,260	345,864
2020	264,384	69,986	334,370
2021	268,174	63,965	332,139
2022 - 2026	1,298,641	235,561	1,534,202
2027 - 2031	1,394,069	99,747	1,493,816
2031 and thereafter	<u>257,809</u>	<u>11,337</u>	<u>269,146</u>
Total Business-Type	<u>\$ 4,278,459</u>	<u>\$ 727,192</u>	<u>\$ 5,005,651</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total Balance June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2016</u>	<u>Less Current Portion</u>	<u>Long-Term Portion June 30, 2016</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,070	\$ -	\$ (757)	\$ 8,313	\$ (732)	\$ 7,581
Capital lease payable	501	209	(277)	433	(163)	270
Accrued compensated absences	1,188	147	-	1,335	-	1,335
Net OPEB obligation	19,327	4,038	-	23,365	-	23,365
Net pension liability	<u>38,083</u>	<u>1,554</u>	<u>-</u>	<u>39,637</u>	<u>-</u>	<u>39,637</u>
Total Governmental	<u>\$ 68,169</u>	<u>\$ 5,948</u>	<u>\$ (1,034)</u>	<u>\$ 73,083</u>	<u>\$ (895)</u>	<u>\$ 72,188</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,515	\$ -	\$ (236)	\$ 4,279	\$ (261)	\$ 4,018
Capital lease payable	45	-	(22)	23	(23)	-
Net OPEB obligation	1,094	172	-	1,266	-	1,266
Net pension liability	<u>583</u>	<u>19</u>	<u>-</u>	<u>602</u>	<u>-</u>	<u>602</u>
Total Business-Type	<u>\$ 6,237</u>	<u>\$ 191</u>	<u>\$ (258)</u>	<u>\$ 6,170</u>	<u>\$ (284)</u>	<u>\$ 5,886</u>

14. **Capital Lease Obligations**

The Town is the lessee of certain equipment under capital leases expiring in various years through 2019. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2016:

<u>Fiscal Year</u>	<u>Capital Lease</u>
2017	\$ 199,562
2018	175,909
2019	<u>105,957</u>
Total minimum lease payments	481,428
Less amounts representing interest	<u>(25,454)</u>
Present Value of Minimum Lease Payments	<u>\$ 455,974</u>

15. **Restricted Net Position**

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

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

16. **Governmental Funds – Balances**

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

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

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

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be

maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes the unexpended balance of Town Meeting articles funded by appropriation and funds reserved under State guidelines to be used to offset future debt service.

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

Unassigned - Represents amounts that are available to be spent in future periods, Stabilization funds set aside by Town Meeting vote and deficit funds.

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

	General Fund	Capital Project Fund (Town)	Capital Project Fund (School)	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 1,314,281	\$ 1,314,281
Total Nonexpendable	-	-	-	1,314,281	1,314,281
Restricted					
Special revenue funds	-	-	-	3,895,706	3,895,706
Bonded projects	-	51,405	802	-	52,207
Expendable permanent funds	-	-	-	188,286	188,286
Total Restricted	-	51,405	802	4,083,992	4,136,199
Committed					
Special articles	409,129	-	-	-	409,129
Debt reserve	1,083,470	-	-	-	1,083,470
Total Committed	1,492,599	-	-	-	1,492,599
Assigned					
Encumbrances	753,900	-	-	-	753,900
Reserved for expenditures	1,545,574	-	-	-	1,545,574
Total Assigned	2,299,474	-	-	-	2,299,474
Unassigned					
General fund	1,577,747	-	-	-	1,577,747
Stabilization fund *	2,863,853	-	-	-	2,863,853
Deficit funds	-	(747,006)	(787,461)	(481,480)	(2,015,947)
Total Unassigned	4,441,600	(747,006)	(787,461)	(481,480)	2,425,653
Total Fund Balance	\$ 8,233,673	\$ (695,601)	\$ (786,659)	\$ 4,916,793	\$ 11,668,206

* Massachusetts General Law Ch. 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

17. Transfers

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

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 109,613	\$ 146,552
Nonmajor funds:		
Special revenue funds:		
Revolving funds	-	48,113
Other SRF	3,000	-
Subtotal Nonmajor Funds	3,000	48,113
<u>Business-Type Funds:</u>		
Sewer fund	93,552	61,500
<u>Fiduciary Funds:</u>		
OPEB Trust fund	50,000	-
Grand Total	<u>\$ 256,165</u>	<u>\$ 256,165</u>

18. Commitments and Contingencies

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.

Solar Farm Lease – In March 2012 the Town entered into a land lease and net metering credit purchase agreement with GLC Development LLC whereby the Town leased landfill property to GLC (for \$1 per year) for them to construct a solar farm. Under the metering agreement, the Town agrees to purchase 95% of the electricity produced by the farm at .055 per kwh (for the term of the agreement), which the Town estimates will save them \$100,000 per year in electricity costs. The farm became operational in August 2013.

The term of the agreement is 20 years from the date of operation (August 2013), with two 5 year renewal options. Although the Town has an option to terminate the agreement after the 7th year, the required payment would be prohibitive. GLC retains ownership of the system and the electricity generated, as well as the rights to all solar renewable energy credits (SRECs) generated by the farm's operation.

19. Subsequent Events

Debt

Subsequent to June 30, 2016, the Town incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
Bond anticipation note - Building Improvement	\$ 2,200,000	0.80%	9/27/2016	12/16/2016
Bond anticipation note - Building Improvement	\$ 2,000,000	0.98%	12/16/2016	6/16/2017
Bond anticipation note - Building Improvement	\$ 1,620,000	1.00%	12/16/2016	6/16/2017
Bond anticipation note - Center Street Project	\$ 668,000	1.24%	5/24/2017	12/8/2017
Bond anticipation note - Feasibility Study	\$ 420,000	1.24%	5/24/2017	12/8/2017
Grant anticipation note - Chapter 90	\$ 56,769	1.19%	6/30/2017	8/15/2017

Capital lease

In September 2016, the Town entered into a 4-year lease to purchase an ambulance. Total lease payments over the four years will be \$228,025, which is comprised of the ambulance cost of \$217,053 plus interest of \$10,972.

40R loan

In May 2016, the Town joined a state sponsored program to promote affordable housing and economic development (Local 40R Program). In September 2016, the Town loaned \$300,000 under this program to a local developer as the Town's contribution to a senior housing project (Ludlow Mills Housing Project). Under the terms of the loan, the principal balance is due in 2067 (but can be repaid at any time) and there is no interest assessed.

20. Post-Employment Health Care and Life Insurance Benefits

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

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2016, the actuarial valuation date, approximately 320 retirees and 564 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 19% of the cost of most plans (50% for Medex and life insurance), as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

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

	Governmental Activities	Business-Type Activities		Total
		Golf Fund	Sewer Fund	
Annual Required Contribution (ARC)	\$ 5,616,962	\$ 28,070	\$ 203,471	\$ 5,848,503
Interest on net OPEB obligation	676,450	7,347	30,949	714,746
Adjustment to ARC	(1,015,308)	(11,027)	(46,454)	(1,072,789)
Amortization of actuarial (gain) / loss	1,347,377	5,924	50,356	1,403,657
Annual OPEB cost	6,625,481	30,314	238,322	6,894,117
Contributions made	(2,587,700)	(4,859)	(91,742)	(2,684,301)
Increase in net OPEB obligation	4,037,781	25,455	146,580	4,209,816
Net OPEB obligation - beginning of year	19,327,126	209,897	884,267	20,421,290
Net OPEB obligation - end of year	\$ 23,364,907	\$ 235,352	\$ 1,030,847	\$ 24,631,106

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 6,894,117	39%	\$ 24,631,106
2015	\$ 5,784,377	46%	\$ 20,421,290
2014	\$ 5,433,136	48%	\$ 17,297,956
2013	\$ 5,907,433	47%	\$ 14,479,868
2012	\$ 5,558,045	48%	\$ 20,421,290
2011	\$ 5,862,128	50%	\$ 8,426,952
2010	\$ 5,529,951	49%	\$ 5,519,583
2009	\$ 5,211,504	48%	\$ 2,694,853

The Town's net OPEB obligation as of June 30, 2016 is recorded as a long-term liability in both governmental and business-type activities.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 87,181,343
Actuarial value of plan assets	<u>(68,840)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 87,112,503</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.1%</u>
Covered payroll (active plan members)	<u>30,604,418</u>
UAAL as a percentage of covered payroll	<u>284.6%</u>

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

In fiscal year 2014, the Town established an OPEB Trust Fund under MGL Chapter 32B, Section 20. The balance in the trust fund is \$122,704 as of June 30, 2016.

F. Actuarial Methods and Assumptions

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

In the January 1, 2016 actuarial valuation the projected unit credit 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 3.5% investment rate of return and an annual healthcare cost trend rate of 5%. The amortization costs for the UAAL is amortized increasing at 3.25% per year, over 30 years at transition (23 years remaining at January 1, 2016). This has been calculated assuming compensation increases of 3% per year and general inflation increases of 2.75% per year.

21. Hampden County Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampden County Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 67 Hunt Street, Suite 106, Agawam, MA 01001.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming

members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

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

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

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$2,936,115, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2016, the Town reported a liability of \$40,238,895 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to December 31, 2015. The Town's proportion of the net pension liability was based on a projection of

the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Town's proportion was 12.88 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$3,693,999. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 2,219,218	\$ -
Changes in proportion and differences between contributions share of contributions and proportionate	-	(1,548,774)
Total	<u>\$ 2,219,218</u>	<u>\$ (1,548,774)</u>

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

Year ended June 30:	
2016	\$ 167,611
2017	167,611
2018	167,611
2019	167,611
Total	<u>\$ 670,444</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2014
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	4.25 - 7%
Inflation rate	4%
Post-retirement cost-of-living adjustment	3% of first \$18,000

Mortality rates were based on the assumptions that reflect the RP-2000 Table projected with the generational mortality with scale AA. Disabled mortality is the healthy retiree table ages set forward 3 years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the two years ending December 31, 2013.

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

<u>Asset Class</u>	<u>Long-term Expected Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	14.50%	7.75%
Small/Mid Cap Equities	3.50%	8.00%
International Equities (unhedged)	16.00%	8.25%
Emerging International Equities	6.00%	9.50%
High-Yield Bonds	1.50%	6.00%
Bank Loans	1.50%	6.25%
EMD (External)	1.00%	7.00%
EMD (Local Currency)	2.00%	7.25%
TIPS	3.00%	4.50%
Long Treasuries	10.00%	4.25%
Private Equity	10.00%	9.75%
Private Debt	4.00%	8.25%
Real Estate (Core)	10.00%	6.50%
Hedge Funds	9.00%	7.00%
Timber/Natural Resources	4.00%	6.88%
Portfolio Completion Strategies	4.00%	N/A
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required

rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.875 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.875%) or 1 percentage-point higher (8.875%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.875%)</u>	<u>Current Discount Rate (7.875%)</u>	<u>1% Increase (8.875%)</u>
June 30, 2016	\$48,832,896	\$40,238,895	\$32,913,276

G. Pension plan fiduciary net position

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

22. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

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

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members — two elected by the MTRS members, one who is chosen by the six other MTRB

members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

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

- (a) 7.50% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-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, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2015</u>	<u>2014</u>
Global equity	40.00%	6.90%	7.20%
Core fixed income	13.00%	2.40%	2.50%
Hedge funds	9.00%	5.80%	5.50%
Private equity	10.00%	8.50%	8.80%
Real estate	10.00%	6.50%	6.30%
Value added fixed income	10.00%	5.80%	6.30%
Portfolio completion strategies	4.00%	5.50%	0.00%
Timber/natural resources	<u>4.00%</u>	6.60%	5.00%
Total	100.00%		

E. Discount Rate

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

F. Sensitivity Analysis

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

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

G. Special Funding Situation

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

H. Town Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$57,914,422 and \$4,697,375 respectively, based on a proportionate share of 0.282652%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

23. Risk Management

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

24. Beginning Fund Balance Reclassification

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

<u>Fund Basis</u>	As Previously <u>Reported</u>	Reclassify Major <u>Funds</u>	As <u>Reclassified</u>
Capital project fund - Town	\$ -	\$ 51,404	\$ 51,404
Capital project fund - School	-	802	802
Total nonmajor funds	<u>4,915,571</u>	<u>(52,206)</u>	<u>4,863,365</u>
	<u>\$ 4,915,571</u>	<u>\$ -</u>	<u>\$ 4,915,571</u>

25. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management's current assessment is that this pronouncement will not have a significant impact on the Plan's financial statements, though the additional note disclosures and required supplementary information will be significant.

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

plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

TOWN OF LUDLOW, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2016
(Unaudited)
(amounts expressed in thousands)

Other Post-Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percent- age of Covered Payroll [(b-a)/c]
01/01/16	\$ 69	\$87,181	\$ 87,112	0.1%	\$ 30,604	284.6%
01/01/14	\$ -	\$69,430	\$ 69,430	0%	N/A	N/A
01/01/12	\$ -	\$72,226	\$ 72,226	0%	\$ 23,728	304.4%
01/01/09	\$ -	\$63,360	\$ 63,360	0%	\$ 40,443	156.7%

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

Hampden County Regional Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	12.88%	\$40,238,895	\$ 13,406,776	300.14%	49.22%
June 30, 2015	13.47%	\$38,666,014	\$ 13,483,044	286.78%	51.38%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.2827%	\$ -	\$ 57,914,422	\$ 57,914,422	\$ 17,916,994	-	55.38%
June 30, 2015	0.2746%	\$ -	\$ 43,654,865	\$ 43,654,865	\$ 16,838,431	-	61.64%

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

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Hampden County Regional Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$2,936,115	\$ 2,936,115	\$ -	\$13,406,776	21.90%
June 30, 2015	\$2,879,605	\$ 2,879,605	\$ -	\$13,483,044	21.36%

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

See Independent Auditors' Report.