

TOWN OF WENHAM, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2016

TOWN OF WENHAM, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

TABLE OF CONTENTS

Independent Auditor's Report.....1

Management's Discussion and Analysis3

Basic Financial Statements10

 Statement of net position11

 Statement of activities.....12

 Governmental funds – balance sheet.....14

 Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position15

 Governmental funds – statement of revenues, expenditures and changes in fund balances.....16

 Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balance to
 the statement of activities17

 Proprietary funds – statement of net position18

 Proprietary funds – statement of revenues, expenditures, and changes in net position.....19

 Proprietary funds – statement of cash flows.....20

 Fiduciary funds – statement of fiduciary net position.....21

 Fiduciary funds – statement of changes in fiduciary net position22

 Notes to basic financial statements23

This page is intentionally left blank.....49

Required Supplementary Information.....50

 Budgetary Comparison Schedules51

 Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual.....52

 Schedule of revenues, expenditures and changes in fund balance – community preservation fund – budget and
 actual.....54

 Pension Plan Schedules55

 Schedule of the Town's proportionate share of the net pension liability.....56

 Schedule of contributions57

 Other Postemployment Benefit Plan Schedules.....58

 Other postemployment benefit plan funding progress and employer contributions.....59

 Other postemployment benefit plan actuarial methods and assumptions60

 Notes to required supplementary information.....61



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Wenham, Massachusetts

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, 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 the 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 Wenham, Massachusetts, as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 13, 2016, on our consideration of the Town of Wenham'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 to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Wenham's internal control over financial reporting.



October 13, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (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, human services, culture and recreation, community preservation, and interest. The Town's business-type activities relate to the water activities.

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

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

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

The Town adopts annual appropriated budgets for its general fund and community preservation fund. Budgetary comparison schedules have been provided as required supplementary information after the notes to the financial statements to demonstrate compliance with these budgets.

Proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town maintains one proprietary fund to account for its water activities.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town’s budgetary basis of accounting as well as pension and other postemployment benefits obligations.

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s governmental assets and deferred outflows exceeded liabilities and deferred inflows by \$8.7 million at the close of 2016. Key components of the Town’s governmental financial position are listed below.

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets.....	\$ 9,582,310	\$ 9,414,238
Noncurrent assets (excluding capital).....	28,592	61,900
Capital assets.....	13,364,106	12,337,939
Total assets.....	<u>22,975,008</u>	<u>21,814,077</u>
Deferred Outflows of Resources:		
Deferred loss on refunding.....	<u>522,731</u>	<u>166,536</u>
Liabilities:		
Current liabilities (excluding debt).....	704,178	501,271
Noncurrent liabilities (excluding debt).....	9,237,751	8,149,860
Current debt.....	683,075	626,854
Noncurrent debt.....	4,202,853	4,468,951
Total liabilities.....	<u>14,827,857</u>	<u>13,746,936</u>
Deferred Inflows of Resources:		
Deferred inflows related to pensions.....	<u>-</u>	<u>29,357</u>
Net Position:		
Net investment in capital assets.....	8,582,914	7,490,329
Restricted.....	5,227,468	5,522,659
Unrestricted.....	<u>(5,140,500)</u>	<u>(4,808,668)</u>
Total net position.....	<u>\$ 8,669,882</u>	<u>\$ 8,204,320</u>

Net position of \$8.7 million reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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.

A restricted portion of the net position totaling \$5.2 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* has a year-end deficit of \$5.1 million. The Town was required to implement the provisions of the Governmental Accounting Standards Board Statement 68, Accounting and Financial Reporting for Pension. As a member unit of the Essex Regional Retirement System, the Town is required to report its proportionate share of the net pension liability and related deferred inflows/outflows.

The governmental activities of the Town are detailed below. The governmental activities net position increased by \$466,000 during the current year which is primarily due to the community preservation fund revenues used to acquire capital assets along with surpluses in the general and other funds. These surpluses were offset by increases in the net pension and OPEB liabilities.

	2016	2015
Program revenues:		
Charges for services.....	\$ 1,347,377	\$ 1,290,366
Operating grants and contributions.....	302,103	162,464
Capital grants and contributions.....	393,061	439,647
General Revenues:		
Real estate and personal property taxes.....	13,329,349	12,801,061
Motor vehicle excise taxes.....	712,324	666,991
Community preservation surcharge.....	316,749	312,045
Nonrestricted grants.....	406,310	404,533
Unrestricted investment income.....	19,978	17,515
Miscellaneous revenues.....	124,313	134,757
Total revenues.....	16,951,564	16,229,379
Expenses:		
General Government.....	1,868,443	1,635,492
Public Safety.....	3,271,582	2,988,798
Education.....	8,158,490	7,739,237
Public Works.....	1,660,616	1,674,195
Human Services.....	197,221	260,274
Culture and Recreation.....	1,219,889	1,147,812
Community Preservation.....	62,442	48,822
Interest.....	44,919	228,790
Claims and judgments.....	2,400	7,509
Total expenses.....	16,486,002	15,730,929
Change in net position.....	465,562	498,450
Net position beginning of the year.....	8,240,968	7,742,518
Net position at the end of the year.....	\$ 8,706,530	\$ 8,240,968

Business-type Activities

The Town's business-type activities reflect the operations of the Town's water enterprise fund. Business-type assets exceeded liabilities by \$1.4 million at the close of 2016. The following table identifies key elements of the net position of the Town's business-type activities.

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets.....	\$ 386,868	\$ 354,567
Capital assets.....	<u>1,385,031</u>	<u>1,449,711</u>
Total assets.....	<u>1,771,899</u>	<u>1,804,278</u>
Liabilities:		
Current liabilities (excluding debt).....	12,640	22,261
Noncurrent liabilities (excluding debt).....	4,788	4,740
Current debt.....	117,000	119,400
Noncurrent debt.....	<u>266,000</u>	<u>383,000</u>
Total liabilities.....	<u>400,428</u>	<u>529,401</u>
Net Position:		
Net investment in capital assets.....	1,017,141	962,421
Unrestricted.....	<u>354,330</u>	<u>312,456</u>
Total net position.....	<u>\$ 1,371,471</u>	<u>\$ 1,274,877</u>

The Town's business type activities net position increased by \$113,000 during the current year. The results reflect the Town's intention to recover its costs of operations through rates.

	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services.....	\$ 458,914	\$ 480,147
Expenses:		
Water expenses.....	353,524	376,433
Interest.....	<u>(7,975)</u>	<u>18,476</u>
Total expenses.....	<u>345,549</u>	<u>394,909</u>
Change in net position.....	113,365	85,238
Net position beginning of the year.....	<u>1,236,017</u>	<u>1,150,779</u>
Net position at the end of the year.....	<u>\$ 1,349,382</u>	<u>\$ 1,236,017</u>

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current year, governmental funds reported combined ending fund balances of \$7.8 million, a net increase of \$134,000 from the prior year.

The General Fund is the Town's chief operating fund. At the end of the current year, unassigned and total fund balance of the General Fund totaled \$2.8 million and \$2.9 million, respectively. 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 fund expenditures. Unassigned fund balance and total fund balance represent 18% and 19% of total General Fund expenditures, respectively. The General Fund total fund balance increased by \$404,000 during 2016 mainly due to a surplus in actual revenue compared to the budget.

The Town has established a community preservation fund, which is funded by a combination of real estate surcharges to taxpayers and a matching grant from the Commonwealth. At the end of 2016, the fund had a positive balance of \$2.4 million, which is recorded in the Community Preservation major governmental fund. As funds accumulate, the Town expects to appropriate funds in accordance with the legislation and in the best interest of the Town of Wenham. During 2016, the fund received \$503,000, and expended \$471,000.

Budgetary Highlights

General Fund:

For 2016, the Town adopted a \$16.1 million dollar operating budget for the General Fund. The budget was financed through current revenues, \$333,000 of transfers in from other funds and the use of \$478,000 of prior year reserves. Actual revenues came in approximately \$572,000 over budget, while actual expenditures came in approximately \$604,000 under budget, resulting in a surplus of \$769,000.

Community Preservation Fund

The Town's Community Preservation Special Revenue fund adopted a \$400,000 revenue budget and appropriated \$1,015,000 for new projects. The fund experienced a net decrease of \$32,000.

Capital Asset and Debt Administration

Outstanding long-term debt, as of June 30, 2016, totaled \$5,242,000 which is comprised of \$4,859,000 million in governmental debt and \$383,000 of Water Enterprise Fund long-term debt. During the year, the Town issued \$592,000 in State House Serial Loan Notes.

During the year, the Town acquired approximately \$1.7 in new capital assets. Significant additions consisted of construction in progress, infrastructure, vehicles, equipment, and library materials.

In October 2013, Standard & Poor's Rating Services has raised its rating on the Town of Wenham AA+ to AAA with a stable outlook. The rating's report stated some of the factors considered in their assessment included our economy was very strong, unemployment was lower than county and state levels, budgetary flexibility remained strong, budgetary performance over the last several years has been strong, reserves and liquidity are strong, town management conditions are strong with good financial practices, and many other management and financial factors are considered strong.

Please refer to the Notes to the Basic Financial Statements for further discussion of the debt and capital activity.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Wenham Town Hall, 138 Main Street, Wenham, MA 01984.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2016

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 6,619,249	\$ 216,532	\$ 6,835,781
Investments.....	1,261,694	-	1,261,694
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	150,477	-	150,477
Community preservation fund surtax.....	2,864	-	2,864
Tax liens.....	88,519	-	88,519
Motor vehicle excise taxes.....	76,813	-	76,813
Water fees.....	-	170,336	170,336
Departmental and other.....	18,178	-	18,178
Intergovernmental.....	712,072	-	712,072
Community preservation fund state share.....	94,088	-	94,088
Assets held for resale.....	189,900	-	189,900
Tax foreclosures.....	368,456	-	368,456
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	28,592	-	28,592
Capital assets, nondepreciable.....	970,353	17,361	987,714
Capital assets, net of accumulated depreciation.....	12,393,753	1,367,670	13,761,423
TOTAL ASSETS.....	22,975,008	1,771,899	24,746,907
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	522,731	-	522,731
LIABILITIES			
CURRENT:			
Warrants payable.....	463,018	7,438	470,456
Accrued payroll.....	131,149	5,202	136,351
Accrued interest.....	56,058	-	56,058
Other liabilities.....	41,744	-	41,744
Capital lease obligations.....	13,075	-	13,075
Compensated absences.....	12,209	-	12,209
Bonds payable.....	670,000	117,000	787,000
NONCURRENT:			
Capital lease obligations.....	13,853	-	13,853
Compensated absences.....	37,750	4,788	42,538
Net pension liability.....	7,449,402	-	7,449,402
Other postemployment benefits.....	1,750,599	-	1,750,599
Bonds payable.....	4,189,000	266,000	4,455,000
TOTAL LIABILITIES.....	14,827,857	400,428	15,228,285
NET POSITION			
Net investment in capital assets.....	8,582,914	1,017,141	9,600,055
Restricted for:			
Permanent funds:			
Expendable.....	97,190	-	97,190
Nonexpendable.....	799,108	-	799,108
Gifts and grants.....	4,331,170	-	4,331,170
Unrestricted.....	(5,140,500)	354,330	(4,786,170)
TOTAL NET POSITION.....	\$ 8,669,882	\$ 1,371,471	\$ 10,041,353

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 1,868,443	\$ 187,655	\$ 190,628	\$ -	\$ (1,490,160)
Public safety.....	3,271,582	334,234	9,191	-	(2,928,157)
Education.....	8,158,490	-	-	-	(8,158,490)
Public works.....	1,660,616	69,213	50,738	188,629	(1,352,036)
Human services.....	197,221	11,390	20,429	-	(165,402)
Affordable housing.....	-	-	6,874	-	6,874
Culture and recreation.....	1,219,889	744,885	24,243	-	(450,761)
Community preservation.....	62,442	-	-	204,432	141,990
Claims and judgments.....	2,400	-	-	-	(2,400)
Interest.....	44,919	-	-	-	(44,919)
Total Governmental Activities.....	16,486,002	1,347,377	302,103	393,061	(14,443,461)
<i>Business-Type Activities:</i>					
Water.....	362,320	458,914	-	-	96,594
Total Primary Government.....	\$ 16,848,322	\$ 1,806,291	\$ 302,103	\$ 393,061	\$ (14,346,867)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (14,443,461)	\$ 96,594	\$ (14,346,867)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	13,329,349	-	13,329,349
Motor vehicle excise taxes.....	712,324	-	712,324
Community preservation surcharge.....	316,749	-	316,749
Grants and contributions not restricted to specific programs.....	406,310	-	406,310
Unrestricted investment income.....	19,978	-	19,978
Miscellaneous.....	124,313	-	124,313
Total General Revenues.....	14,909,023	-	14,909,023
 Change in net position.....	 465,562	 96,594	 562,156
<i>Net Position:</i>			
Beginning of year.....	8,204,320	1,274,877	9,479,197
End of year.....	\$ 8,669,882	\$ 1,371,471	\$ 10,041,353

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 2,860,601	\$ 2,638,783	\$ 1,119,865	\$ 6,619,249
Investments.....	-	-	1,261,694	1,261,694
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	150,477	-	-	150,477
Real estate tax deferrals.....	28,592	-	-	28,592
Community preservation fund surtax.....	-	2,864	-	2,864
Tax liens.....	88,519	-	-	88,519
Motor vehicle excise taxes.....	76,813	-	-	76,813
Departmental and other.....	2,334	-	15,844	18,178
Intergovernmental.....	347,972	-	364,100	712,072
Community preservation fund state share.....	-	94,088	-	94,088
Assets held for resale.....	-	-	189,900	189,900
Tax foreclosures.....	368,456	-	-	368,456
TOTAL ASSETS.....	\$ 3,923,764	\$ 2,735,735	\$ 2,951,403	\$ 9,610,902
LIABILITIES				
Warrants payable.....	\$ 205,190	\$ 227,358	\$ 30,470	\$ 463,018
Accrued payroll.....	123,839	-	7,310	131,149
Other liabilities.....	1,027	-	40,717	41,744
TOTAL LIABILITIES.....	330,056	227,358	78,497	635,911
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue.....	691,218	96,952	364,100	1,152,270
FUND BALANCES				
Nonspendable.....	-	-	992,875	992,875
Restricted.....	-	2,411,425	1,515,931	3,927,356
Assigned.....	83,836	-	-	83,836
Unassigned.....	2,818,654	-	-	2,818,654
TOTAL FUND BALANCES.....	2,902,490	2,411,425	2,508,806	7,822,721
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 3,923,764	\$ 2,735,735	\$ 2,951,403	\$ 9,610,902

See notes to basic financial statements.

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

JUNE 30, 2016

Total governmental fund balances.....	\$	7,822,721
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		13,364,106
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		1,152,270
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		522,731
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(56,058)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(4,859,000)	
Capital lease obligations.....	(26,928)	
Net pension liability.....	(7,449,402)	
Other postemployment benefits.....	(1,750,599)	
Compensated absences.....	<u>(49,959)</u>	
Net effect of reporting long-term liabilities.....		<u>(14,135,888)</u>
Net position of governmental activities.....	\$	<u><u>8,669,882</u></u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 13,412,582	\$ -	\$ -	\$ 13,412,582
Motor vehicle excise taxes.....	713,311	-	-	713,311
Community preservation surcharge.....	-	317,718	-	317,718
Intergovernmental.....	1,142,349	-	632,670	1,775,019
Departmental and other.....	533,801	-	189,797	723,598
Contributions.....	-	-	25,593	25,593
Investment income.....	6,757	5,181	14,914	26,852
Community preservation state match.....	-	179,706	-	179,706
Miscellaneous.....	12,178	-	2,270	14,448
TOTAL REVENUES.....	15,820,978	502,605	865,244	17,188,827
EXPENDITURES:				
Current:				
General government.....	1,092,619	-	257,035	1,349,654
Public safety.....	1,989,062	-	656,890	2,645,952
Education.....	8,158,490	-	-	8,158,490
Public works.....	1,056,950	-	578,465	1,635,415
Human services.....	138,345	-	18,149	156,494
Culture and recreation.....	883,050	-	17,739	900,789
Community preservation.....	-	546,115	-	546,115
Pension benefits.....	563,272	-	-	563,272
Property and liability insurance.....	116,812	-	-	116,812
Employee benefits.....	646,053	-	-	646,053
Claims and judgments.....	2,400	-	-	2,400
State and county charges.....	219,987	-	-	219,987
Debt service:				
Principal.....	462,800	117,800	-	580,600
Interest.....	91,828	32,922	-	124,750
TOTAL EXPENDITURES.....	15,421,668	696,837	1,528,278	17,646,783
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	399,310	(194,232)	(663,034)	(457,956)
OTHER FINANCING SOURCES (USES):				
Issuance of bonds and notes.....	-	-	592,000	592,000
Transfers in.....	5,000	-	223,000	228,000
Transfers out.....	-	-	(228,000)	(228,000)
TOTAL OTHER FINANCING SOURCES (USES).....	5,000	-	587,000	592,000
NET CHANGE IN FUND BALANCES.....	404,310	(194,232)	(76,034)	134,044
FUND BALANCES AT BEGINNING OF YEAR.....	2,498,180	2,605,657	2,584,840	7,688,677
FUND BALANCES AT END OF YEAR.....	\$ 2,902,490	\$ 2,411,425	\$ 2,508,806	\$ 7,822,721

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....		\$ 134,044
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	1,716,859	
Depreciation expense.....	<u>(690,692)</u>	
Net effect of reporting capital assets.....		1,026,167
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(237,263)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(592,000)	
Amortization of premium and deferred loss on refunding.....	42,400	
Debt service principal payments.....	<u>580,600</u>	
Net effect of reporting long-term debt.....		31,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(8,541)	
Net change in capital lease obligation.....	12,341	
Net change in deferred outflow/(inflow) of resources related to pensions.....	552,088	
Net change in net pension liability.....	(699,312)	
Net change in other postemployment benefits.....	(382,393)	
Net change in accrued interest on long-term debt.....	<u>37,431</u>	
Net effect of recording long-term liabilities.....		<u>(488,386)</u>
Change in net position of governmental activities.....		<u>\$ 465,562</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2016

	Water Enterprise Fund
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 216,532
Receivables, net of allowance for uncollectibles:	
Water fees.....	170,336
Total current assets.....	386,868
NONCURRENT:	
Capital assets, nondepreciable.....	17,361
Capital assets, net of accumulated depreciation.....	1,367,670
Total noncurrent assets.....	1,385,031
TOTAL ASSETS.....	1,771,899
LIABILITIES	
CURRENT:	
Warrants payable.....	7,438
Accrued payroll.....	5,202
Bonds payable.....	117,000
Total current liabilities.....	129,640
NONCURRENT:	
Compensated absences.....	4,788
Bonds and notes payable.....	266,000
Total noncurrent liabilities.....	270,788
TOTAL LIABILITIES.....	400,428
NET POSITION	
Net investment in capital assets.....	1,017,141
Unrestricted.....	354,330
TOTAL NET POSITION.....	\$ 1,371,471

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	Water Enterprise Fund
<u>OPERATING REVENUES:</u>	
Charges for services	\$ 458,914
<u>OPERATING EXPENSES:</u>	
Cost of services and administration	278,994
Depreciation.....	74,530
 TOTAL OPERATING EXPENSES	 353,524
 OPERATING INCOME (LOSS).....	 105,390
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Interest expense.....	(7,975)
 CHANGE IN NET POSITION.....	 96,594
 NET POSITION AT BEGINNING OF YEAR.....	 1,274,877
 NET POSITION AT END OF YEAR.....	 \$ 1,371,471

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

	<u>Water Enterprise Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 445,331
Payments to vendors.....	(132,152)
Payments to employees.....	<u>(156,415)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>156,764</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and construction of capital assets.....	(9,850)
Principal payments on bonds and notes.....	(120,221)
Interest expense.....	<u>(7,975)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(138,046)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	18,718
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>197,814</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 216,532</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ <u>105,390</u>
Adjustments to reconcile operating income (loss) to net Cash from operating activities:	
Depreciation.....	74,530
Changes in assets and liabilities:	
Water fee receivable.....	(13,583)
Warrants payable.....	(10,969)
Accrued payroll.....	1,348
Accrued compensated absences.....	<u>48</u>
Total adjustments.....	<u>51,374</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 156,764</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Other Postemployment Benefit Fund
ASSETS	
Cash and cash equivalents.....	\$ 45,662
NET POSITION	
Held in trust for other postemployment benefits.....	\$ 45,662

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2016

	Other Postemployment Benefit Fund
<u>ADDITIONS:</u>	
Contributions:	
Employer.....	\$ 20,000
Net investment income:	
Interest.....	291
TOTAL ADDITIONS.....	20,291
NET POSITION AT BEGINNING OF YEAR.....	25,371
NET POSITION AT END OF YEAR.....	\$ 45,662

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected three member Board of Selectmen and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has one component units that require inclusion in these basic financial statements.

During 2010 the Town established the Wenham Affordable Housing Trust, which is reported within the nonmajor governmental funds. The Trust Fund was initially funded with a gift received in 2008 from a real estate developer for \$703,000. That balance, plus accumulated interest and a \$208,292 contribution from the CPA Fund is being used to increase the Town's stock of affordable housing units. The funds were used to purchase two properties during 2010. One property was sold during 2011 and the other is being held for future resale. The cost to acquire the properties totaled \$517,000. The net realizable value of the property held is estimated at \$189,900. In 2013, the WHAT Friend Court, LLC was created as a Massachusetts single-member manager-managed limited liability company. The single member is the Wenham Affordable Housing Trust and as such the LLC is reported a blended component unit. Ownership of the property has been transferred from the Town's Affordable Housing Trust to the LLC.

The Town has an agreement with the Town of Hamilton to operate a Joint Public Library under the direction of a Joint Board of Library Trustees. The Town is the administrator for all matters associated with the management of the Joint Public Library. All revenues and expenditures related to the operation of the Joint Public Library are accounted for in the Town's General Fund. Reimbursements from the Town of Hamilton for their apportioned share of expenditures are recorded as intergovernmental revenue. In 2016 operating expenses were approximately \$961,000 of which the Town's share totaled \$225,000 and Hamilton's share totaled \$736,000. The \$736,000 is reported as intergovernmental revenue.

The Town also has an agreement with the Town of Hamilton to operate a joint recreation. The program is operated by the Town of Hamilton. The Town of Wenham reimburses Hamilton for Wenham's share of the program. Reimbursements to Hamilton for the program totaled \$16,000 in 2016.

The Town is a member of the Hamilton-Wenham Regional School District (the District) which provides educational services for all levels of schools to both communities. This joint venture assesses each community its share of operating and debt service costs based on student population and other factors. In 2016, Wenham's share of the operating expense totaled \$7,733,548 and its share of the debt service expense totaled \$237,053. There is no equity interest required to be reported in the basic financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 5 School Street, Wenham, Massachusetts 01984.

The Town, along with surrounding communities, has entered into an agreement for a regional communication center. The Town's 2016 assessment for the regional communication center of \$82,194 is budgeted as intergovernmental funds.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *community preservation fund* is used to account for the proceeds of a surcharge to real estate taxes along with a matching state grant. These funds must be spent in accordance with state law.

The *Wenham Affordable Housing Trust fund* is used to account for funds designated to develop affordable housing within the Town.

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

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

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

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

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

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

The following proprietary fund type is reported:

The *water enterprise fund* is used to account for the Town's water activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund type is reported:

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed.

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

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

Motor Vehicle Excise

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

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

Water Fees

Water user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water liens are processed after year end and included as a lien on the property owner's tax bill.

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

Intergovernmental

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

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

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

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Capital assets of the governmental activities column in the government-wide financial statements do not include construction period interest.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	40
Machinery and equipment.....	5-50
Infrastructure.....	10-60

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

Governmental Fund Financial Statements

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

H. Deferred Outflows/Inflows of Resources

Government-Wide Statement of Financial Position and Governmental Funds Balance Sheet

In addition to assets, these statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has recorded a deferred loss on refunding as a deferred outflow of resources on the government-wide statement of net position.

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

Government Fund Financial Statements

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

I. Interfund Receivables and Payables

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

Fund Financial Statements

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

Government Wide Financial Statements

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

J. Interfund Transfers

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

Fund Financial Statements

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

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the Statement of Activities as "Transfers, net".

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

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

Net position has been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Grants and gifts” represents restrictions placed on assets from outside parties and consist primarily of gifts and federal and state grants.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

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

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

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

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Pensions

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

N. Investment Income

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

O. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Use of Estimates*Government-Wide and Fund Financial Statements*

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

Q. Total Column*Fund Financial Statements*

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

R. Fair Value Measurements

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Investments and Fair Value Measurements.

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's investment pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town has not formally adopted a policy for custodial credit risk of deposits. At year-end, the carrying amount of deposits totaled \$6,825,168 and the bank balance totaled \$6,855,651. Of the bank balance, \$1,500,000 was covered by Federal Depository Insurance, \$1,602,014 was covered by Depositors

Insurance Fund, \$161,754 was covered by the Securities Investor Protector Corporation, \$1,400,000 was collateralized, and \$2,310,236 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

Of the Town’s total investments of \$1,317,969, there was custodial credit risk exposure of \$798,199 which is equal to the investments in government sponsored enterprises of \$535,160; and corporate bonds in the amount of \$263,039 because the related securities are uninsured, unregistered and held by the counterparty. The Town does not have an investment policy for custodial credit risk.

Investments and Fair Value Measurements

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

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

Investment Type	Fair Value Measurements Using		
	6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<u>Debt Securities:</u>			
U.S. Government Securities:			
U.S. government treasuries.....	\$ 308,714	\$ 308,714	\$ -
Corporate bonds.....	263,039	-	263,039
Government sponsored enterprises.....	535,160	535,160	-
Total Debt Securities.....	<u>1,106,913</u>	<u>843,874</u>	<u>263,039</u>
<u>Other Investments:</u>			
Money market mutual funds.....	56,275	56,275	-
Equity mutual funds.....	154,781	154,781	-
Total other investments.....	<u>211,056</u>	<u>211,056</u>	<u>-</u>
Total Investments measured at fair value.....	<u>\$ 1,317,969</u>	<u>\$ 1,054,930</u>	<u>\$ 263,039</u>

Debt and equity securities, U.S. Government Treasuries and Government Sponsored Enterprises, Mutual Funds, Repurchase Agreements, and MMDT classified in Level 1 of the fair value hierarchy are valued using prices

quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk

The government does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer.

More than 30 percent of the Town's investments are in the following securities:

<u>Issuer</u>	<u>Percentage of Total Investments</u>
Federal Home Loan Mortgage Corporation.....	41%

NOTE 3 – RECEIVABLES

At June 30, 2016, receivables for the governmental funds, in the aggregate, including the applicable allowance for uncollectibles, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 151,677	\$ (1,200)	\$ 150,477
Real estate tax deferrals.....	28,592	-	28,592
Community preservation fund surtax	2,864	-	2,864
Tax liens.....	88,519	-	88,519
Motor vehicle excise taxes.....	93,813	(17,000)	76,813
Departmental and other.....	18,178	-	18,178
Intergovernmental.....	712,072	-	712,072
Community preservation fund state share.....	94,088	-	94,088
Total.....	<u>\$ 1,189,803</u>	<u>\$ (18,200)</u>	<u>\$ 1,171,603</u>

At June 30, 2016, receivables for the water enterprise consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water fees.....	<u>\$ 170,336</u>	<u>\$ -</u>	<u>\$ 170,336</u>

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

	General Fund	Community Preservation	Other Governmental Funds	Total
<u>Receivable type:</u>				
Real estate and personal property taxes.....	\$ 128,838	\$ -	\$ -	\$ 128,838
Real estate tax deferrals.....	28,592	-	-	28,592
Community preservation fund surtax	-	2,864	-	2,864
Tax liens.....	88,519	-	-	88,519
Motor vehicle excise taxes.....	76,813	-	-	76,813
Intergovernmental.....	-	-	364,100	364,100
Community preservation fund state share.....	-	94,088	-	94,088
<u>Other asset type:</u>				
Tax foreclosures.....	368,456	-	-	368,456
Total.....	<u>\$ 691,218</u>	<u>\$ 96,952</u>	<u>\$ 364,100</u>	<u>\$ 1,152,270</u>

NOTE 4 – CAPITAL ASSETS

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

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 486,680	\$ -	\$ -	\$ 486,680
Construction in progress.....	145,371	483,673	(145,371)	483,673
Total capital assets not being depreciated.....	632,051	483,673	(145,371)	970,353
<u>Capital assets being depreciated:</u>				
Buildings.....	10,432,137	122,598	-	10,554,735
Machinery and equipment.....	1,962,514	384,210	-	2,346,724
Vehicles.....	1,944,785	520,883	-	2,465,668
Infrastructure.....	3,296,951	350,866	-	3,647,817
Total capital assets being depreciated.....	17,636,387	1,378,557	-	19,014,944
<u>Less accumulated depreciation for:</u>				
Buildings.....	(2,636,739)	(257,434)	-	(2,894,173)
Machinery and equipment.....	(1,161,318)	(218,849)	-	(1,380,167)
Vehicles.....	(1,399,415)	(133,557)	-	(1,532,972)
Infrastructure.....	(733,027)	(80,852)	-	(813,879)
Total accumulated depreciation.....	(5,930,499)	(690,692)	-	(6,621,191)
Total capital assets being depreciated, net.....	11,705,888	687,865	-	12,393,753

Business-Type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,361	\$ -	\$ -	\$ 17,361
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	275,139	9,850	-	284,989
Vehicles.....	120,682	-	-	120,682
Infrastructure.....	1,808,516	-	-	1,808,516
Total capital assets being depreciated.....	<u>2,204,337</u>	<u>9,850</u>	<u>-</u>	<u>2,214,187</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(155,418)	(20,554)	-	(175,972)
Vehicles.....	(87,004)	(5,181)	-	(92,185)
Infrastructure.....	(529,565)	(48,795)	-	(578,360)
Total accumulated depreciation.....	<u>(771,987)</u>	<u>(74,530)</u>	<u>-</u>	<u>(846,517)</u>
Total capital assets being depreciated, net.....	<u>1,432,350</u>	<u>(64,680)</u>	<u>-</u>	<u>1,367,670</u>
Total business-type activities capital assets, net.....	<u>\$ 1,449,711</u>	<u>\$ (64,680)</u>	<u>\$ -</u>	<u>\$ 1,385,031</u>

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

Governmental Activities:

General government.....	\$ 209,009
Public safety.....	156,716
Public works.....	183,839
Culture and recreation.....	<u>141,128</u>
Total depreciation expense - governmental activities.....	<u>\$ 690,692</u>

Business-Type Activities:

Water.....	<u>\$ 74,530</u>
------------	------------------

NOTE 5 – INTERFUND TRANSFERS

In 2016, the Town transferred \$328,293 from the Education Stabilization Fund to the Town’s General Fund to support the 2016 tax rate. This transfer is reported on the General Fund’s budgetary basis schedule of revenues and expenditures reported as required supplementary information after the notes. In accordance with GASB Statement No. 54, the activity of the General Fund and the Education Stabilization Fund are combined and the transfer between these funds is eliminated for fund based financial statements. A \$5,000 transfer from nonmajor funds to the General Fund was voted to support the General Fund operations and a \$223,000 transfer was made from various capital project funds into one consolidated capital project fund.

NOTE 6 – CAPITAL LEASES

The Town has entered into several lease agreements to finance the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The following identifies the assets acquired through capital lease agreements:

<u>Asset:</u>		<u>Governmental Activities</u>
Machinery and equipment.....	\$	65,595
Less: accumulated depreciation.....		<u>(32,798)</u>
Total.....	\$	<u><u>32,798</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2016, are as follows:

<u>Years Ending June 30</u>		<u>Governmental Activities</u>
2017.....	\$	14,677
2018.....		<u>14,677</u>
Total minimum lease payments.....		29,354
Less: amounts representing interest.....		<u>(2,426)</u>
Present value of minimum lease payments.....	\$	<u><u>26,928</u></u>

NOTE 7 – SHORT-TERM FINANCING

The Town is authorized to borrow on a temporary basis to fund the following:

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

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund.

There was no short-term debt issued during 2016 or outstanding at June 30, 2016.

NOTE 8 – LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

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

Bonds Payable Schedule

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
<i>Governmental:</i>							
Town Hall/Police Station.....	2017	\$ 6,358,500	3.88 - 4.50	\$ 660,000	\$ -	\$ (330,000)	\$ 330,000
Fire Truck.....	2017	465,000	4.25 - 4.50	90,000	-	(45,000)	45,000
Drainage/Road Repair.....	2023	656,811	2.00 - 3.25	498,000	-	(39,000)	459,000
Energy Service Company.....	2023	288,000	2.00 - 2.25	192,000	-	(24,000)	168,000
DPW Equipment.....	2016	137,000	2.70	25,000	-	(25,000)	-
Library.....	2020	294,600	2.00	294,600	-	(74,600)	220,000
Lease Buyback.....	2020	73,600	2.00	73,600	-	(13,600)	60,000
Town Hall Renovations.....	2020	49,100	2.00	49,100	-	(9,100)	40,000
Town Hall/Police Station.....	2027	2,965,300	2.00 - 4.00	2,965,300	-	(20,300)	2,945,000
State House Serial Loan Notes.....	2021	592,000	2.70	-	592,000	-	592,000
Sub-total.....				4,847,600	592,000	(580,600)	4,859,000
Add: unamortized premium.....				208,936	-	(208,936)	-
Total Governmental Debt.....				5,056,536	592,000	(789,536)	4,859,000
<i>Enterprise:</i>							
Water Tower.....	2018	258,189	2.00 - 2.25	110,000	-	(37,000)	73,000
Water.....	2020	392,400	2.00	392,400	-	(82,400)	310,000
Total Enterprise Debt.....				502,400	-	(119,400)	383,000
Total Debt.....				\$ 5,558,936	\$ 592,000	\$ (908,936)	\$ 5,242,000

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$ 670,000	\$ 129,030	\$ 799,030
2018.....	589,000	103,606	692,606
2019.....	605,000	90,496	695,496
2020.....	590,000	76,973	666,973
2021.....	510,000	64,185	574,185
2022.....	395,000	53,375	448,375
2023.....	390,000	44,025	434,025
2024.....	280,000	36,350	316,350
2025.....	280,000	27,600	307,600
2026.....	275,000	16,500	291,500
2027.....	275,000	5,500	280,500
Total.....	<u>\$ 4,859,000</u>	<u>\$ 647,640</u>	<u>\$ 5,506,640</u>

Bonds and Notes Payable Schedule – Enterprise Fund

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$ 117,000	\$ 6,626	\$ 123,626
2018.....	116,000	4,205	120,205
2019.....	75,000	2,250	77,250
2020.....	75,000	750	75,750
Total.....	<u>\$ 383,000</u>	<u>\$ 13,831</u>	<u>\$ 396,831</u>

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

<u>Purpose</u>	<u>Amount</u>
ESCO.....	\$ 260,955
DPW Equipment.....	23,000
Finance/Police Hardware Upgrades...	14,700
Finance/Police Software Upgrades....	38
Total.....	<u>\$ 298,693</u>

In the prior year, the Town defeased certain of its outstanding general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable escrow account to provide amounts sufficient for the future payment of principal and interest on those bonds. Accordingly, neither the assets in escrow nor the liability for the defeased bonds are included in the Town’s financial statements. At June 30, 2016, \$3,000,000 of general obligation bonds outstanding are considered defeased. On August 15, 2016 the entire amount outstanding was called and redeemed.

General Long-Term Liabilities

The Town records its liability for long-term bonds and notes in the Government-wide financial statements. Other general long-term obligations recognized by the Town are its obligations for compensated absence benefits (sick and vacation pay), net pension liability, and other postemployment benefits.

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

	Balance June 30, 2015	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2016	Current Portion
Governmental Activities:						
Long-Term Bonds and Notes.....	\$ 4,847,600	\$ 592,000	\$ (580,600)	\$ -	\$ 4,859,000	\$ 670,000
Add: Unamortized Premium.....	208,936	-	-	(208,936)	-	-
Total Bonds Payable.....	5,056,536	592,000	(580,600)	(208,936)	4,859,000	670,000
Compensated Absences.....	41,418	-	-	(3,668)	37,750	12,209
Capital Leases.....	39,269	-	-	(12,341)	26,928	13,075
Net Pension Liability.....	6,750,090	-	-	699,312	7,449,402	-
Other Postemployment Benefits.....	1,368,206	-	-	382,393	1,750,599	-
Total.....	<u>\$ 13,255,519</u>	<u>\$ 592,000</u>	<u>\$ (580,600)</u>	<u>\$ 856,760</u>	<u>\$ 14,123,679</u>	<u>\$ 695,284</u>
Business-Type Activities:						
Long-Term Bonds and Notes.....	\$ 502,400	\$ -	\$ (119,400)	\$ -	\$ 383,000	\$ 117,000
Compensated Absences.....	4,740	-	-	48	4,788	-
Total.....	<u>\$ 507,140</u>	<u>\$ -</u>	<u>\$ (119,400)</u>	<u>\$ 48</u>	<u>\$ 387,788</u>	<u>\$ 117,000</u>

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

There are two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

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

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable:				
Permanent Fund Principal.....	\$ -	\$ -	\$ 802,975	\$ 802,975
Assets Held for Resale.....	-	-	189,900	189,900
Restricted for:				
Community Preservation.....	-	2,411,425	-	2,411,425
Affordable Housing.....	-	-	-	-
Town Hall and Police Station Project.....	-	-	1,252	1,252
Federal and State Grants.....	-	-	116,417	116,417
Receipts Reserved for Appropriation.....	-	-	41,853	41,853
Gifts and Revolving Funds.....	-	-	507,487	507,487
Highway Capital Projects.....	-	-	103,484	103,484
Expendable Trust Funds.....	-	-	93,323	93,323
Assigned to:				
General Government.....	2,528	-	-	2,528
Public Safety.....	1,975	-	-	1,975
Public Works.....	5,101	-	-	5,101
Human Services.....	1,114	-	-	1,114
Culture and Recreation.....	53,868	-	-	53,868
Employee benefits.....	19,250	-	-	19,250
Unassigned.....	<u>2,818,654</u>	<u>-</u>	<u>-</u>	<u>2,818,654</u>
TOTAL FUND BALANCES.....	\$ <u>2,902,490</u>	\$ <u>2,411,425</u>	\$ <u>1,856,691</u>	\$ <u>7,170,606</u>

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

In accordance with Statement No. 54, the Town’s \$517,000 stabilization fund has been reported in the general fund as unassigned.

NOTE 10 – PENSION PLAN*Plan Description*

The Town is a member of the Essex Regional Retirement System (ERRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 47 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefits Provided

The System provides retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ERRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015 was \$563,272 and 21.84% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

At June 30, 2016, the Town reported a liability of \$7,449,402 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2015, the Town's proportion was 2.05%, which changed from 1.99% proportion measured at December 31, 2014.

Pension Expense

For the year ended June 30, 2016, the Town recognized pension expense of \$710,496. At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$522,731, from the net difference between projected and actual investment earnings on pension plan investments along with changes in proportion. Since the system performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2015.

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

<u>Year ended June 30:</u>	
2017.....	\$ 127,318
2018.....	127,318
2019.....	127,318
2020.....	134,862
2021.....	<u>5,915</u>
 Total.....	 \$ <u><u>522,731</u></u>

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

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Closed - Approximate level percent of payroll.
Remaining amortization period.....	20 years for the fresh start base.
Asset valuation method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Projected salary increases.....	Select and Ultimate. 7.50% year one, 6.50% year two, 6.00% year three, 5.50% year four, 5.00% year five, 3.75% ultimate rate.
Cost of living adjustments.....	3.0% of the first \$13,000 of a members retirement allowance is assumed to be granted every year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.

Rates of disability.....	Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and Group 2 and 10% ordinary and 90% accidental for Group 4.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table was used. Post-employment the healthy annuitant table is used.
Disabled Retiree.....	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by two years. Death is assumed to be due to the same cause as the disability 40% of the time.
Investment rate of return/Discount rate.....	8.00% per year.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 3.0%) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2014 are summarized in the following table:

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

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

Sensitivity of the net position liability to changes in the discount rate. The following presents the net position liability, calculated using the discount rate of 8.0%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount (8.00%)	1% Increase (9.00%)
	<u> </u>	<u> </u>	<u> </u>
The Town's proportionate share of the net pension liability.....	\$ 9,158,180	\$ 7,449,402	\$ 6,128,727

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

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs.

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. The Town voted to approve its OPEB trust fund, and as of year-end, has pre-funded OPEB liabilities in the amount of \$45,662.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 482,295
Amortization of Actuarial (Gains) / Losses.....	81,201
Adjustments to annual required contribution.....	(76,082)
Interest on net OPEB obligation.....	<u>54,728</u>
Annual OPEB cost (expense).....	542,142
Expected Benefit Payment.....	<u>(159,749)</u>
Increase/(Decrease) in OPEB Obligation.....	382,393
Net OPEB Obligation - beginning of year.....	<u>1,368,206</u>
Net OPEB Obligation - end of year.....	<u>\$ 1,750,599</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the previous two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 542,142	29%	\$ 1,750,599
6/30/2015	419,397	40%	\$ 1,368,206
6/30/2014	402,612	41%	1,118,393

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
7/1/2015	\$ 25,371	\$ 5,059,967	\$ 5,034,596	1%	\$ N/A	N/A
7/1/2012	-	4,006,943	4,006,943	0%	3,385,097	118.4%
7/1/2009	-	4,053,759	4,053,759	0%	3,153,907	128.5%

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

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

In the July 1, 2015, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 5% initially, graded to 6% over 3 years and included a 2.5% inflation assumption. The UAAL is being amortized over a 30 year period, with a flat dollar amortization. The remaining amortization period at June 30, 2016 is 24 years.

NOTE 12 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care plans for its employees and retirees. The Town participates in a premium-based workers' compensation insurance plan for its employees.

The amount of settlements has not exceeded the coverage in any of the last three years.

NOTE 13 – CONTINGENCIES

The Town participates in a number of federal award programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2016 which is the date the financial statements were available to be issued.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #79, *Certain External Investment Pools and Pool Participants*, which is required to be implemented in 2016 with certain provisions to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

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

This page intentionally left blank.

Required Supplementary Information

Budgetary Comparison Schedules

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

The Community Preservation Fund is used to account for the proceeds of a surcharge to real estate taxes along with a matching state grant.

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGETARY BASIS - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Amounts Carried Forward From Prior Year	Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 13,208,207	\$ 13,208,207	\$ 13,208,207
Motor vehicle and other excise taxes.....	-	551,671	551,671	551,671
Intergovernmental.....	-	1,110,180	1,110,180	1,110,180
Departmental and other.....	-	414,000	414,000	414,000
Investment income.....	-	1,700	1,700	1,700
Miscellaneous.....	-	-	-	-
TOTAL REVENUES.....	-	15,285,758	15,285,758	15,285,758
EXPENDITURES:				
Current:				
General government.....	48,131	1,187,615	1,235,746	1,326,002
Public safety.....	1,234	2,140,020	2,141,254	2,142,097
Education.....	-	8,196,009	8,196,009	8,187,049
Public works.....	105	1,180,398	1,180,503	1,167,084
Human services.....	2,096	152,799	154,895	154,859
Culture and recreation.....	-	943,060	943,060	943,060
Pension benefits.....	-	580,420	580,420	570,420
Property and liability insurance.....	-	120,000	120,000	120,000
Employee benefits.....	1,480	716,859	718,339	721,719
Claims and judgments.....	-	47,000	47,000	2,400
State and county charges.....	-	219,987	219,987	219,987
Debt service:				
Principal.....	-	462,800	462,800	462,800
Interest.....	-	91,828	91,828	91,828
TOTAL EXPENDITURES.....	53,046	16,038,795	16,091,841	16,109,305
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES...	(53,046)	(753,037)	(806,083)	(823,547)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	328,037	328,037	333,037
Prior year carryforward appropriations.....	53,046	-	53,046	53,046
Free cash.....	-	425,000	425,000	430,000
Other amounts raised and used.....	-	-	-	7,464
TOTAL OTHER FINANCING SOURCES (USES).....	53,046	753,037	806,083	823,547
NET CHANGE IN FUND BALANCE.....	-	-	-	-
BUDGETARY FUND BALANCE, Beginning of year.....	-	-	1,592,228	1,592,228
BUDGETARY FUND BALANCE, End of year.....	\$ -	\$ -	\$ 1,592,228	\$ 1,592,228

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	13,453,954	\$ -	\$ 245,747
	713,311	-	161,640
	1,142,349	-	32,169
	533,801	-	119,801
	2,216	-	516
	<u>12,178</u>	<u>-</u>	<u>12,178</u>
	<u>15,857,809</u>	<u>-</u>	<u>572,051</u>
	1,092,619	2,528	230,855
	1,989,062	1,975	151,060
	8,158,490	-	28,559
	1,056,950	5,101	105,033
	138,345	1,114	15,400
	883,050	53,868	6,142
	563,272	-	7,148
	116,812	-	3,188
	646,053	19,250	56,416
	2,400	-	-
	219,987	-	-
	462,800	-	-
	<u>91,828</u>	<u>-</u>	<u>-</u>
	<u>15,421,668</u>	<u>83,836</u>	<u>603,801</u>
	<u>436,141</u>	<u>(83,836)</u>	<u>1,175,852</u>
	333,293	-	256
	-	-	(53,046)
	-	-	(430,000)
	<u>-</u>	<u>-</u>	<u>(7,464)</u>
	<u>333,293</u>	<u>-</u>	<u>(490,254)</u>
	769,434	(83,836)	685,598
	<u>1,592,228</u>	<u>-</u>	<u>-</u>
\$	<u><u>2,361,662</u></u>	\$ <u><u>(83,836)</u></u>	\$ <u><u>685,598</u></u>

COMMUNITY PRESERVATION FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGETARY BASIS - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Budgetary Amounts	Variance To Final Budget
REVENUES:			
Community preservation surcharge.....	\$ 285,000	\$ 317,718	\$ 32,718
Community preservation state match.....	115,000	179,706	64,706
Investment income.....	-	5,181	5,181
TOTAL REVENUES.....	400,000	502,605	102,605
EXPENDITURES:			
Current:			
Community preservation expenditures.....	863,880	320,071	543,809
Debt service:			
Principal.....	117,800	117,800	-
Interest.....	32,922	32,922	-
TOTAL EXPENDITURES.....	1,014,602	470,793	543,809
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(614,602)	31,812	646,414
BUDGETARY FUND BALANCE, Beginning of year.....	2,605,657	2,605,657	-
BUDGETARY FUND BALANCE, End of year.....	\$ 1,991,055	\$ 2,637,469	\$ 646,414

See notes to required supplementary information.

Pension Plan Schedules

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

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

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

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
ESSEX REGIONAL RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Town's proportion of the net pension liability (asset).....	1.99%	2.05%
Town's proportionate share of the net pension liability (asset)..... \$	6,750,090	\$ 7,499,402
Town's covered employee payroll..... \$	2,472,907	\$ 2,579,576
Town's net pension liability as a percentage of covered-employee payroll.....	272.96%	290.72%
Plan fiduciary net position as a percentage of the total pension liability.....	52.27%	51.01%

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

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS
ESSEX REGIONAL RETIREMENT SYSTEM**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution.....	\$ 510,403	\$ 563,272
Contributions in relation to the actuarially determined contribution.....	<u>510,403</u>	<u>563,272</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 2,472,907	\$ 2,579,576
Contributions as a percentage of covered- employee payroll.....	20.64%	21.84%

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2015	\$ 25,371	\$ 5,059,967	\$ 5,034,596	1%	\$ N/A	N/A
7/1/2012	-	4,006,943	4,006,943	0%	3,385,097	118.4%
7/1/2009	-	4,053,759	4,053,759	0%	3,153,907	128.5%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2016	\$ 482,295	\$ 159,749	33%
6/30/2015	400,880	169,584	42%
6/30/2014	393,555	166,119	42%
6/30/2013	393,382	161,613	41%
6/30/2012	376,232	164,212	44%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2015
Actuarial cost method.....	Entry age normal
Amortization method.....	Amortized as a level dollar amount
Remaining amortization period.....	24 years as of July 1, 2015
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	4.0%, per year
Medical/drug cost trend rate.....	5.0% graded to 6.0% over 3 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	31
Current active members.....	<u>40</u>
Total.....	<u><u>71</u></u>

See notes to required supplementary information.

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

Municipal Law requires the Town to adopt a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the Open Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any individual line item, adopts the expenditure budget by majority vote. Increases or decreases subsequent to the approval of the annual budget require a vote at a Special Town Meeting.

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

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

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original 2016 budget for the General Fund includes current year appropriations and other amounts to be raised of \$16,039,000 and continuing appropriations from prior year of \$53,000.

The Town adopts an annual budget for the Community Preservation Fund in conformity with the guidelines described above. The original and final 2016 budget includes current and prior year appropriations of \$1,015,000 and budgeted revenues of \$400,000.

The Town Accountant has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts (Commonwealth)) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary basis to GAAP basis results for the General Fund for the year ended June 30, 2016, is presented below:

	General Fund	Community Preservation Fund
	<u> </u>	<u> </u>
Net change in fund balance - budgetary basis.....	\$ 769,434	\$ 31,812
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....	(323,752)	-
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts accrual.....	<u>(41,372)</u>	<u>-</u>
Net change in fund balances - GAAP basis.....	<u>\$ 404,310</u>	<u>\$ 31,812</u>

NOTE B – PENSION PLAN

Changes in Assumptions:

The principal actuarial assumptions used in this valuation are the same as the prior valuation except for the following change.

Amounts reported in the January 1, 2014 actuarial valuation reflect an adjustment of the mortality assumptions which are based upon the RP-2000 (sex distinct) Employee Mortality Table increased with generational mortality and Scale BB. The previous actuarial valuation, January 1, 2013 used an 18 year projection with Scale AA.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS PLAN

The Town administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare, dental, and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

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