

**TOWN OF LUDLOW, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2015

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Ludlow, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ludlow, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ludlow, Massachusetts, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

*Melanson Heath*

July 27, 2016

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

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

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

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

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

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

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

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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compli-

ance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

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

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

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

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of liabilities exceeded assets by \$(299,480) (i.e., net position), a change of \$(5,163,280) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,828,876, a change of \$492,691 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,988,660, a change of \$(3,198,099) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$13,585,640, a change of \$(683,429) in comparison to the prior year.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 20,286,391	\$ 19,684,080	\$ 1,727,758	\$ 1,819,683	\$ 22,014,149	\$ 21,503,763
Capital assets	47,231,844	49,665,775	10,896,962	11,169,822	58,128,806	60,835,597
Deferred outflows	233,518	-	1,739	-	235,257	-
Total Assets and Deferred Outflows of Resources	67,751,753	69,349,855	12,626,459	12,989,505	80,378,212	82,339,360
Long-term liabilities outstanding	68,169,786	27,684,696	6,237,782	5,388,669	74,407,568	33,073,365
Other liabilities	5,855,964	5,686,650	154,350	602,580	6,010,314	6,289,230
Deferred inflows	250,716	-	9,094	-	259,810	-
Total Liabilities and Deferred Inflows of Resources	74,276,466	33,371,346	6,401,226	5,991,249	80,677,692	39,362,595
Net assets:						
Invested in capital assets, net	37,712,317	39,679,537	6,336,556	6,891,166	44,048,873	46,570,703
Restricted	4,863,365	3,900,311	-	-	4,863,365	3,900,311
Unrestricted	(49,100,395)	(7,601,339)	(111,323)	107,090	(49,211,718)	(7,494,249)
Total Net Position	\$ (6,524,713)	\$ 35,978,509	\$ 6,225,233	\$ 6,998,256	\$ (299,480)	\$ 42,976,765

## CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 3,950,042	\$ 4,088,485	\$ 2,198,851	\$ 2,278,374	\$ 6,148,893	\$ 6,366,859
Operating grants and contributions	20,433,198	23,108,263	-	-	20,433,198	23,108,263
Capital grants and contributions	1,407,329	555,781	-	-	1,407,329	555,781
General revenues:						
Property taxes	33,203,735	31,618,588	-	-	33,203,735	31,618,588
Excises	2,409,579	2,449,606	-	-	2,409,579	2,449,606
Penalties, interest on taxes	1,947,107	1,925,994	-	-	1,947,107	1,925,994
Grants and contributions not restricted	3,089,189	2,869,533	-	-	3,089,189	2,869,533
Investment income	60,502	60,858	279	196	60,781	61,054
Other	373	287,385	-	5,600	373	292,985
<b>Total Revenues</b>	<b>66,501,054</b>	<b>66,964,493</b>	<b>2,199,130</b>	<b>2,284,170</b>	<b>68,700,184</b>	<b>69,248,663</b>
<b>Expenses:</b>						
General government	3,212,498	3,225,595	-	-	3,212,498	3,225,595
Public safety	7,731,991	7,236,005	-	-	7,731,991	7,236,005
Education	35,669,162	38,053,588	-	-	35,669,162	38,053,588
Public works	6,214,104	6,166,185	-	-	6,214,104	6,166,185
Health and human services	1,119,508	1,061,940	-	-	1,119,508	1,061,940
Culture and recreation	981,296	985,278	-	-	981,296	985,278
Employee benefits	15,384,875	13,978,114	-	-	15,384,875	13,978,114
Interest on long-term debt	396,719	422,222	-	-	396,719	422,222
Intergovernmental	662,346	587,574	-	-	662,346	587,574
Golf operations	-	-	839,570	812,955	839,570	812,955
Landfill operations	-	-	7,110	58	7,110	58
Sewer operations	-	-	1,644,285	1,541,312	1,644,285	1,541,312
<b>Total expenses</b>	<b>71,372,499</b>	<b>71,716,501</b>	<b>2,490,965</b>	<b>2,354,325</b>	<b>73,863,464</b>	<b>74,070,826</b>
Change in net position before transfers	(4,871,445)	(4,752,008)	(291,835)	(70,155)	(5,163,280)	(4,822,163)
Transfer in / (out)	(93,682)	(158,781)	93,682	93,781	-	(65,000)
Change in net position	(4,965,127)	(4,910,789)	(198,153)	23,626	(5,163,280)	(4,887,163)
Net position - beginning of year, as restated	(1,559,586)	40,889,298	6,423,386	6,974,630	4,863,800	47,863,928
<b>Net position - end of year</b>	<b>\$ (6,524,713)</b>	<b>\$ 35,978,509</b>	<b>\$ 6,225,233</b>	<b>\$ 6,998,256</b>	<b>\$ (299,480)</b>	<b>\$ 42,976,765</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(299,480), a change of \$(5,163,280) from the prior year.

By far the largest portion of net position, \$44,048,873 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$4,863,365 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(49,100,395) in governmental activities and (111,323) in business-type activities.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(4,965,127). Key elements of this change are as follows:

General fund decrease further explained in Section D	\$ (470,363)
Grant revolving and trust fund revenues and transfers in excess of expenditures and transfers out	963,054
Depreciation expense, (not budgeted for) more than principal debt and capital lease expense (included in budget)	(2,212,394)
Capitalized expenditures funded by general operating revenues and grants	245,174
Increase in OPEB liability	(2,942,247)
Change in net pension liability, net of deferrals	(681,905)
Other revenue and expense accruals	<u>133,554</u>
Total	<u>\$ (4,965,127)</u>

**Business-Type Activities.** Business-type activities for the year resulted in a decrease in net position of \$(198,153), primarily relating to the golf fund. Key elements of this change are as follows:

Golf operations	\$ (163,271)
Landfill operations	(6,904)
Sewer operations	<u>(27,978)</u>
Total	<u>\$ (198,153)</u>

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,828,876, a change of \$492,691 in comparison with the prior year. This change was the result of:

General fund decrease (detailed below)	\$ (470,363)
Grant and revolving revenues and transfers in excess of expenditures and transfers out	926,621
Trust fund revenues and transfers in excess of expenditures and transfers out	<u>36,433</u>
Total governmental fund change	<u>\$ 492,691</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,988,660, while total fund balance was \$7,913,305. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% of Total 2015 General Fund Expenditures</u>
Unassigned - general fund	\$ 1,729,719	\$ 4,950,012	\$ (3,220,293)	3.0%
Unassigned - stabilization fund	<u>3,258,941</u>	<u>3,236,747</u>	<u>22,194</u>	<u>5.7%</u>
Total unassigned fund balance	4,988,660	8,186,759	(3,198,099)	8.7%
Total fund balance	\$ 7,913,305	\$ 8,383,668	\$ (470,363)	13.8%

The fund balance of the general fund decreased by \$(470,363) during the current fiscal year. Key factors in this change are as follows:

Revenues (on a budgetary basis) were more than anticipated	\$ 451,733
Expenditures were under budget	222,641
Property tax revenue collected was more than budget	198,351
Expenditures in the current year, funded by a previous year budget	(818,436)
Current year expenditure carryforwards to be expended in a subsequent year	840,379
Use of surplus, prior year encumbrances, overlay surplus and debt exclusion reserve in funding appropriations	(1,484,629)
Prior year expenses (snow and ice deficit) raised in the current year	401,924
Other GAAP accruals	(304,520)
Change in Stabilization fund	<u>22,194</u>
	<u>\$ (470,363)</u>

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

Total net position of the enterprise funds at the end of the year amounted to \$6,225,233, a change of \$(198,153) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

**E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$23,675, which consists of:

Unpaid bills from a prior year	\$ 2,633
Deficits in prior years' special article	<u>21,042</u>
	<u>\$ 23,675</u>

All of this increase was funded by free cash.

**F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$58,128,806 (net of accumulated depreciation), a decrease of \$(2,706,791) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

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

Depreciation expense for governmental activities	\$ (3,179,105)
Depreciation expense for business-type activities	(328,214)
Purchase of three vehicles for the Police and School departments	125,860
Purchase of a fire engine truck, financed through a capital lease	500,000
Ludlow High School track repairs	33,650
Computer equipment	20,227
Library books and periodicals	61,237
Land acquired through tax foreclosure	4,200
Purchase of a mower for the Golf Fund, financed through a capital lease	34,108
Six golf cart replacements	<u>21,246</u>
	<u>\$ (2,706,791)</u>

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$13,585,640, all of which was backed by the full faith and credit of the government.

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

## **REQUESTS FOR INFORMATION**

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

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

## TOWN OF LUDLOW, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 14,104,407	\$ 1,603,718	\$ 15,708,125
Investments	3,794,949	-	3,794,949
Receivables, net of allowance for uncollectibles:			
Property taxes	662,779	-	662,779
Excises	208,838	-	208,838
User fees	-	124,040	124,040
Departmental and other	414,976	-	414,976
Intergovernmental	881,254	-	881,254
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	219,188	-	219,188
Land and construction in progress	1,340,021	1,107,900	2,447,921
Capital assets, net of accumulated depreciation	45,891,823	9,789,062	55,680,885
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>233,518</u>	<u>1,739</u>	<u>235,257</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>67,751,753</b>	<b>12,626,459</b>	<b>80,378,212</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	927,167	-	927,167
Accounts payable	61,262	110,440	171,702
Accrued payroll and withholdings	4,500,948	13,211	4,514,159
Accrued interest payable	51,120	30,699	81,819
Note payable	310,074	-	310,074
Other current liabilities	5,393	-	5,393
Current portion of long-term liabilities:			
Bonds payable	757,350	236,417	993,767
Capital lease payable	201,142	22,479	223,621
Noncurrent:			
Bonds payable, net of current portion	8,313,414	4,278,459	12,591,873
Capital lease payable, net of current portion	299,827	23,051	322,878
Compensated absences	1,188,125	-	1,188,125
Net OPEB obligation	19,327,126	1,094,164	20,421,290
Net pension liability	38,082,802	583,212	38,666,014
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>250,716</u>	<u>9,094</u>	<u>259,810</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>74,276,466</b>	<b>6,401,226</b>	<b>80,677,692</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	37,712,317	6,336,556	44,048,873
Restricted for:			
State and federal grants	3,417,850	-	3,417,850
Permanent funds:			
Nonexpendable	1,278,656	-	1,278,656
Expendable	166,859	-	166,859
Unrestricted	<u>(49,100,395)</u>	<u>(111,323)</u>	<u>(49,211,718)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>(6,524,713)</u></b>	<b>\$ <u>6,225,233</u></b>	<b>\$ <u>(299,480)</u></b>

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

TOWN OF LUDLOW, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 3,212,498	\$ 654,238	\$ 12,655	\$ -	\$ (2,545,605)	\$ -	\$ (2,545,605)
Public safety	7,731,991	1,539,145	239,089	-	(5,953,757)	-	(5,953,757)
Education	35,669,162	1,059,787	19,737,373	-	(14,872,002)	-	(14,872,002)
Public works	6,214,104	250,692	350,000	1,407,329	(4,206,083)	-	(4,206,083)
Health and human services	1,119,508	343,210	50,179	-	(726,119)	-	(726,119)
Culture and recreation	981,296	102,970	43,902	-	(834,424)	-	(834,424)
Employee benefits	15,384,875	-	-	-	(15,384,875)	-	(15,384,875)
Interest	396,719	-	-	-	(396,719)	-	(396,719)
Intergovernmental	662,346	-	-	-	(662,346)	-	(662,346)
Total Governmental Activities	<u>71,372,499</u>	<u>3,950,042</u>	<u>20,433,198</u>	<u>1,407,329</u>	<u>(45,581,930)</u>	<u>-</u>	<u>(45,581,930)</u>
<b>Business-Type Activities:</b>							
Golf operations	839,570	676,231	-	-	-	(163,339)	(163,339)
Landfill operations	7,110	-	-	-	-	(7,110)	(7,110)
Sewer operations	1,644,285	1,522,620	-	-	-	(121,665)	(121,665)
Total Business-Type Activities	<u>2,490,965</u>	<u>2,198,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(292,114)</u>	<u>(292,114)</u>
Total All	<u>\$ 73,863,464</u>	<u>\$ 6,148,893</u>	<u>\$ 20,433,198</u>	<u>\$ 1,407,329</u>	<u>(45,581,930)</u>	<u>(292,114)</u>	<u>(45,874,044)</u>
<b>General Revenues and Transfers:</b>							
Property taxes					33,203,735	-	33,203,735
Excises					2,409,579	-	2,409,579
Penalties, interest and other taxes					1,947,107	-	1,947,107
Grants and contributions not restricted to specific programs					3,089,189	-	3,089,189
Investment income					60,502	279	60,781
Miscellaneous					373	-	373
Transfers in (out)					(93,682)	93,682	-
Total General Revenues and Transfers					<u>40,616,803</u>	<u>93,961</u>	<u>40,710,764</u>
Change in Net Position					(4,965,127)	(198,153)	(5,163,280)
<b>Net Position:</b>							
Beginning of year, as restated					<u>(1,559,586)</u>	<u>6,423,386</u>	<u>4,863,800</u>
End of year					<u>\$ (6,524,713)</u>	<u>\$ 6,225,233</u>	<u>\$ (299,480)</u>

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

TOWN OF LUDLOW, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 10,625,766	\$ 3,478,641	\$ 14,104,407
Investments	2,513,481	1,281,468	3,794,949
Receivables:			
Property taxes	719,664	-	719,664
Tax liens and foreclosures	427,402	-	427,402
Excises	231,572	-	231,572
Departmental and other	505,947	7,900	513,847
Intergovernmental	353,312	527,942	881,254
TOTAL ASSETS	<u>\$ 15,377,144</u>	<u>\$ 5,295,951</u>	<u>\$ 20,673,095</u>
<b>LIABILITIES</b>			
Liabilities:			
Warrants payable	\$ 926,023	\$ 1,144	\$ 927,167
Accounts payable	-	61,262	61,262
Accrued payroll and withholdings	4,500,948	-	4,500,948
Note payable	-	310,074	310,074
Other liabilities	5,393	-	5,393
TOTAL LIABILITIES	5,432,364	372,480	5,804,844
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,031,475	7,900	2,039,375
<b>FUND BALANCES</b>			
Non-spendable	-	1,278,656	1,278,656
Restricted	-	3,754,368	3,754,368
Committed	1,541,385	-	1,541,385
Assigned	1,383,260	-	1,383,260
Unassigned	4,988,660	(117,453)	4,871,207
TOTAL FUND BALANCES	<u>7,913,305</u>	<u>4,915,571</u>	<u>12,828,876</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 15,377,144</u>	<u>\$ 5,295,951</u>	<u>\$ 20,673,095</u>

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

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

JUNE 30, 2015

<b>Total Governmental Fund Balances</b>	\$ 12,828,876
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	47,231,844
<ul style="list-style-type: none"> <li>• Certain changes in net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.</li> </ul>	113,518
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles).</li> </ul>	1,652,671
<ul style="list-style-type: none"> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(51,120)
<ul style="list-style-type: none"> <li>• Long-term liabilities, including bonds payable, compensated absences, capital leases, other post-employment benefits, and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li> </ul>	(68,420,502)
<ul style="list-style-type: none"> <li>• As noted above, bonds payable are not reported in the governmental funds. Accordingly, deferred loss on early retirement of debt, resulting from an advance refunding, is also not recorded in governmental funds.</li> </ul>	<u>120,000</u>
<b>Net Position of Governmental Activities</b>	\$ <u><u>(6,524,713)</u></u>

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

TOWN OF LUDLOW, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 33,128,582	\$ -	\$ 33,128,582
Excises	2,379,309	-	2,379,309
Penalties, interest and other taxes	1,947,246	-	1,947,246
Charges for services	2,079,980	1,481,517	3,561,497
Intergovernmental	17,007,731	5,091,832	22,099,563
Licenses and permits	363,982	-	363,982
Fines and forfeitures	52,610	-	52,610
Investment income	31,300	29,202	60,502
Miscellaneous	373	-	373
	<hr/>	<hr/>	<hr/>
Total Revenues	56,991,113	6,602,551	63,593,664
<b>Expenditures:</b>			
Current:			
General government	2,946,981	239,736	3,186,717
Public safety	7,370,090	305,988	7,676,078
Education	27,704,409	3,905,378	31,609,787
Public works	3,896,574	1,020,894	4,917,468
Health and human services	1,049,625	39,933	1,089,558
Culture and recreation	719,831	40,388	760,219
Employee benefits	11,760,723	-	11,760,723
Debt service	1,344,395	-	1,344,395
Intergovernmental	662,346	-	662,346
	<hr/>	<hr/>	<hr/>
Total Expenditures	57,454,974	5,552,317	63,007,291
Excess (deficiency) of revenues over expenditures	(463,861)	1,050,234	586,373
<b>Other Financing Sources (Uses):</b>			
Transfers in	104,740	17,560	122,300
Transfers out	(111,242)	(104,740)	(215,982)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(6,502)	(87,180)	(93,682)
Change in fund balance	(470,363)	963,054	492,691
Fund Equity, at Beginning of Year	<hr/> 8,383,668	<hr/> 3,952,517	<hr/> 12,336,185
Fund Equity, at End of Year	\$ <u>7,913,305</u>	\$ <u>4,915,571</u>	\$ <u>12,828,876</u>

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

TOWN OF LUDLOW, MASSACHUSETTS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

<b>Net Changes In Fund Balances - Total Governmental Funds</b>	\$ 492,691																						
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="width: 20%; text-align: right;">745,174</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,179,105)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, (net of allowance). <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;">73,037</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of bonds</td> <td style="width: 20%; text-align: right;">757,647</td> </tr> <tr> <td>Repayments of capital lease obligations</td> <td style="text-align: right;">209,064</td> </tr> <tr> <td>Issuance of capital lease</td> <td style="text-align: right;">(500,000)</td> </tr> <tr> <td>Amortization of deferred loss on early retirement of debt</td> <td style="text-align: right;">(20,000)</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;">7,269</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, such as compensated absences, other post-employment benefits (OPEB), and net pension liability do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Change in compensated absence liability</td> <td style="width: 20%; text-align: right;">73,248</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(2,942,247)</td> </tr> <tr> <td>Change in net pension liability, net of deferrals</td> <td style="text-align: right;"><u>(681,905)</u></td> </tr> </table> </li> </ul>		Capital outlay purchases	745,174	Depreciation	(3,179,105)		73,037	Repayments of bonds	757,647	Repayments of capital lease obligations	209,064	Issuance of capital lease	(500,000)	Amortization of deferred loss on early retirement of debt	(20,000)		7,269	Change in compensated absence liability	73,248	Change in OPEB liability	(2,942,247)	Change in net pension liability, net of deferrals	<u>(681,905)</u>
Capital outlay purchases	745,174																						
Depreciation	(3,179,105)																						
	73,037																						
Repayments of bonds	757,647																						
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Amortization of deferred loss on early retirement of debt	(20,000)																						
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Change in compensated absence liability	73,248																						
Change in OPEB liability	(2,942,247)																						
Change in net pension liability, net of deferrals	<u>(681,905)</u>																						
<b>Change In Net Position of Governmental Activities</b>	<b>\$ <u>(4,965,127)</u></b>																						

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

TOWN OF LUDLOW, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues and Other Sources:</b>				
Taxes	\$ 32,930,231	\$ 32,930,231	\$ 32,930,231	\$ -
Excise	2,354,000	2,354,000	2,379,309	25,309
Penalties, interest and other taxes	1,885,000	1,885,000	1,947,246	62,246
Charges for services	1,917,578	1,917,578	2,079,980	162,402
Intergovernmental	16,880,153	16,880,153	17,007,731	127,578
Licenses and permits	337,000	337,000	363,982	26,982
Fines and forfeits	45,500	45,500	52,610	7,110
Investment income	10,000	10,000	9,106	(894)
Miscellaneous	-	-	373	373
Transfers in	64,113	64,113	104,740	40,627
Other sources	1,460,954	1,484,629	1,484,629	-
<b>Total Revenues and Other Sources</b>	<b>57,884,529</b>	<b>57,908,204</b>	<b>58,359,937</b>	<b>451,733</b>
<b>Expenditures and Other Uses:</b>				
General government	3,108,889	3,065,285	2,875,291	189,994
Public safety	7,227,499	7,244,905	7,121,071	123,834
Education	27,652,621	27,652,621	27,629,254	23,367
Public works	3,523,769	3,560,652	4,025,633	(464,981)
Health and human services	1,033,262	1,045,653	1,026,915	18,738
Culture and recreation	770,241	770,840	732,659	38,181
Debt service	1,738,124	1,574,442	1,344,395	230,047
Intergovernmental	632,595	632,595	662,346	(29,751)
Employee benefits	11,792,605	11,862,605	11,754,833	107,772
Transfers out	3,000	96,682	111,242	(14,560)
Other uses	401,924	401,924	401,924	-
<b>Total Expenditures and Other Uses</b>	<b>57,884,529</b>	<b>57,908,204</b>	<b>57,685,563</b>	<b>222,641</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 674,374	\$ 674,374

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

TOWN OF LUDLOW, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2015

<u>ASSETS</u>	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Golf Fund</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	
Current:				
Cash and short-term investments	\$ 190,976	\$ 60,998	\$ 1,351,744	\$ 1,603,718
User fee receivable, net of allowance for uncollectible	-	-	124,040	124,040
Total current assets	190,976	60,998	1,475,784	1,727,758
Noncurrent:				
Land	1,107,900	-	-	1,107,900
Capital assets, net of accumulated depreciation	692,385	-	9,096,677	9,789,062
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,401</b>	<b>-</b>	<b>338</b>	<b>1,739</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,992,662</b>	<b>60,998</b>	<b>10,572,799</b>	<b>12,626,459</b>
<b>LIABILITIES</b>				
Current:				
Accounts payable	-	-	110,440	110,440
Accrued payroll	9,541	-	3,670	13,211
Accrued interest payable	-	-	30,699	30,699
Bonds payable	-	-	236,417	236,417
Capital lease payable	22,479	-	-	22,479
Noncurrent:				
Bonds payable, net of current portion	-	-	4,278,459	4,278,459
Capital lease payable, net of current portion	23,051	-	-	23,051
Net OPEB obligation	209,897	-	884,267	1,094,164
Net pension liability	469,964	-	113,248	583,212
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>7,328</b>	<b>-</b>	<b>1,766</b>	<b>9,094</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>742,260</b>	<b>-</b>	<b>5,658,966</b>	<b>6,401,226</b>
<b><u>NET POSITION</u></b>				
Invested in capital assets, net of related debt	1,754,755	-	4,581,801	6,336,556
Unrestricted	(504,353)	60,998	332,032	(111,323)
<b>TOTAL NET POSITION</b>	<b>\$ 1,250,402</b>	<b>\$ 60,998</b>	<b>\$ 4,913,833</b>	<b>\$ 6,225,233</b>

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

TOWN OF LUDLOW, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Golf Fund</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	
<b>Operating Revenues:</b>				
Charges for services	\$ 676,231	\$ -	\$ 1,522,620	\$ 2,198,851
Total Operating Revenues	676,231	-	1,522,620	2,198,851
<b>Operating Expenses:</b>				
Salaries and wages	327,948	-	139,695	467,643
Operating expenses	304,152	-	905,396	1,209,548
Depreciation	80,939	-	247,275	328,214
Administration	126,281	-	262,740	389,021
Other	250	7,110	-	7,360
Total Operating Expenses	839,570	7,110	1,555,106	2,401,786
Operating Income (Loss)	(163,339)	(7,110)	(32,486)	(202,935)
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	68	206	5	279
Interest expense	-	-	(89,179)	(89,179)
Total Nonoperating Revenues (Expenses), Net	68	206	(89,174)	(88,900)
Change in Net Position before transfers	(163,271)	(6,904)	(121,660)	(291,835)
Transfer in	-	-	93,682	93,682
Change in Net Position	(163,271)	(6,904)	(27,978)	(198,153)
Net Position at Beginning of Year, as restated	1,413,673	67,902	4,941,811	6,423,386
Net Position at End of Year	\$ 1,250,402	\$ 60,998	\$ 4,913,833	\$ 6,225,233

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

TOWN OF LUDLOW, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds			Total
	Golf Fund	Landfill Fund	Sewer Fund	
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 676,231	\$ -	\$ 1,496,255	\$ 2,172,486
Payments to vendors and employees	(700,806)	(7,110)	(953,970)	(1,661,886)
Net Cash Provided by / (Used for) Operating Activities	(24,575)	(7,110)	542,285	510,600
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>				
Transfers in	-	-	93,682	93,682
Net Cash Provided by Non-Capital Financing Activities	-	-	93,682	93,682
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>				
Acquisition and construction of capital assets	(21,246)	-	-	(21,246)
Proceeds of government loan	-	-	503,676	503,676
Payment of long term debt principal	-	-	(429,458)	(429,458)
Payment of capital lease principal	(23,512)	-	-	(23,512)
Payment of short term note	-	-	(505,000)	(505,000)
Interest paid	-	-	(91,937)	(91,937)
Net Cash (Used for) Capital and Related Financing Activities	(44,758)	-	(522,719)	(567,477)
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	68	206	5	279
Net Cash Provided by Investing Activities	68	206	5	279
Net Change in Cash and Short-Term Investments	(69,265)	(6,904)	113,253	37,084
Cash and Short Term Investments, Beginning of Year	260,241	67,902	1,238,491	1,566,634
Cash and Short Term Investments, End of Year	\$ 190,976	\$ 60,998	\$ 1,351,744	\$ 1,603,718
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ (163,339)	\$ (7,110)	\$ (32,486)	\$ (202,935)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	80,939	-	247,275	328,214
Changes in assets and liabilities:				
Accounts receivable	-	-	129,009	129,009
Accounts payable and accrued liabilities	9,541	-	49,987	59,528
Net OPEB obligation	35,635	-	145,452	181,087
Net pension liability, net of deferrals	12,649	-	3,048	15,697
Net Cash Provided by / (Used for) Operating Activities	\$ (24,575)	\$ (7,110)	\$ 542,285	\$ 510,600

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

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

	<u>Agency Funds</u>	<u>OPEB Trust Fund</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 15,912	\$ 354
Investments	-	68,486
Accounts receivable	<u>45,819</u>	<u>-</u>
Total Assets	<u>\$ 61,731</u>	<u>\$ 68,840</u>
<b><u>LIABILITIES</u></b>		
Deferred revenue	\$ 45,819	\$ -
Deposits held in custody	44,175	-
Student activity funds	56,335	-
Police outside detail	(128,928)	-
Other liabilities	<u>44,330</u>	<u>-</u>
Total Liabilities	<u>61,731</u>	<u>-</u>
<b><u>NET POSITION</u></b>		
Total Net Position	<u>\$ -</u>	<u>\$ 68,840</u>

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

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

	<u>OPEB Trust Fund</u>
Additions	
Investment income	\$ <u>327</u>
Net increase	327
Net position	
Beginning of year	<u>68,513</u>
End of year	\$ <u><u>68,840</u></u>

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

## Town of Ludlow, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that no entities met the required GASB 39 criteria of component units.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

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

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

###### Fund Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$2,139,662.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

#### H. Compensated Absences

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

#### I. Long-Term Obligations

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

#### J. Fund Equity

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

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds

are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

#### K. Use of Estimates

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

## 2. Stewardship, Compliance and Accountability

### A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is

amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

#### *B. Budgetary Basis*

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

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

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 56,991,113	\$ 57,454,974
Other financing sources/uses (GAAP basis)	104,740	111,242
Reverse the effect of adding Stabilization fund to General fund per GASB 54	(22,194)	-
Adjust tax revenue to accrual basis	(198,351)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(818,436)
Add end of year appropriation carryforwards to expenditures	-	840,379
To reverse the effect of GAAP accruals	-	(304,520)
Recognize use of fund balance as funding source/use	<u>1,484,629</u>	<u>401,924</u>
Budgetary basis	<u>\$ 58,359,937</u>	<u>\$ 57,685,563</u>

*D. Excess of Expenditures Over Appropriations*

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

Snow and ice	\$ 642,608
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This deficit is being amortized over three years, by raising \$214,203 through taxation each year in fiscal years 2016 through 2018.

*E. Deficit Fund Equity*

The following funds were in deficit as of June 30, 2015:

Special Revenue Funds

State highway grant projects (Chapter 90)	\$ 42,319
Federal ARRA - IDEA EC FY2010	22,842
Ludlow Mills project	<u>52,292</u>
	<u>\$ 117,453</u>

Agency Funds

Police outside detail	\$ 128,928
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The deficits in these funds will be eliminated through future intergovernmental revenues and/or transfers from other funds.

### 3. Cash and Short-Term Investments

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

As of June 30, 2015, none of the Town's bank balance of \$15,796,567 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name.

### 4. Investments

#### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Laws (MGL) Chapter 44, Section 55 limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town's investment policy, adopted in fiscal year 2009, limits investments (other than U.S. Treasury/Agency obligations and State pool – MMDT) as follows:

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

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of year end</u>			
			<u>AAA</u>	<u>AA2</u>	<u>AA3</u>	<u>Baaa</u>
Certificates of deposit	\$ 2,064,168	\$ 2,064,168	\$ -	\$ -	\$ -	\$ -
Equity securities	212,487	212,487	-	-	-	-
Government securities	956,259	-	956,259	-	-	-
Mutual funds	270,304	270,304	-	-	-	-
Corporate bonds	360,217	-	75,850	119,770	-	164,597
<b>Total investments</b>	<b>\$ 3,863,435</b>	<b>\$ 2,546,959</b>	<b>\$ 1,032,109</b>	<b>\$ 119,770</b>	<b>\$ -</b>	<b>\$ 164,597</b>

### B. Custodial Credit Risk

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

All of the Town's investment of \$3,863,435 is subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk by limiting investments to financial instruments contained in Massachusetts' "List of Legal Investments".

### C. Concentration of Credit Risk

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

The Town had the following investment in one issuer greater than 5% of total investments, (other than U.S. Treasury securities):

ALLY Bank Midvale UT certificate of deposit      \$200,354

### D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy limits investment maturities for general (non-trust fund investments) to one year

from the date of purchase. There is no maturity limit for trust fund investments.

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

<u>Investment Type</u>	<u>Total</u>	<u>Exempt From Disclosure</u>	<u>Maturity in Years</u>			
			<u>Less than 1 Year</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Over 10</u>
Certificates of deposit	\$ 2,064,168	\$ -	\$ 546,464	\$ 1,097,907	\$ 342,254	\$ 77,543
Equity securities	212,487	212,487	-	-	-	-
Government securities	956,259	-	-	915,199	34,344	6,716
Mutual funds	270,304	270,304	-	-	-	-
Corporate bonds	360,217	-	50,362	309,855	-	-
<b>Total investments</b>	<b>\$ 3,863,435</b>	<b>\$ 482,791</b>	<b>\$ 596,826</b>	<b>\$ 2,322,961</b>	<b>\$ 376,598</b>	<b>\$ 84,259</b>

**E. Foreign Currency Risk**

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

**5. Taxes Receivable**

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

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

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

Real Estate			
2015	\$	511,819	
2014		124,974	
2013 and prior		<u>7,008</u>	643,801
Personal Property			
2015		12,829	
2014		7,033	
2013 and prior		<u>49,359</u>	69,221
Betterments			<u>6,642</u>
Total	\$		<u><u>719,664</u></u>

## 6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 56,885
Tax title and foreclosure	208,214
Excises	22,734
Departmental	<u>98,871</u>
Total	<u><u>\$ 386,704</u></u>

## 7. Intergovernmental Receivables

The balance reported in governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

## 8. Deferred Outflow of Resources

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

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

	Entity-wide Basis		Fund Basis	
	Governmental Activities	Business-type Activities	Proprietary Funds Golf	Sewer
Loss on refunding	\$ 120,000	\$ -	\$ -	\$ -
Net difference between projected and actual pension plan investment earnings	<u>113,518</u>	<u>1,739</u>	<u>1,401</u>	<u>338</u>
Total Deferred Outflow of Resources	<u>\$ 233,518</u>	<u>\$ 1,739</u>	<u>\$ 1,401</u>	<u>\$ 338</u>

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 3,070,665	\$ 33,650	\$ -	\$ 3,104,315
Buildings and improvements	51,245,289	-	-	51,245,289
Machinery, equipment, and furnishings	8,541,226	81,464	-	8,622,690
Vehicles	2,343,374	625,860	(18,650)	2,950,584
Infrastructure	<u>30,689,454</u>	<u>-</u>	<u>-</u>	<u>30,689,454</u>
Total capital assets, being depreciated	95,890,008	740,974	(18,650)	96,612,332
Less accumulated depreciation for:				
Land improvements	(1,573,274)	(148,023)	-	(1,721,297)
Buildings and improvements	(17,540,924)	(1,317,499)	-	(18,858,423)
Machinery, equipment, and furnishings	(7,185,639)	(350,096)	-	(7,535,735)
Vehicles	(1,852,305)	(267,964)	18,650	(2,101,619)
Infrastructure	<u>(19,407,912)</u>	<u>(1,095,523)</u>	<u>-</u>	<u>(20,503,435)</u>
Total accumulated depreciation	<u>(47,560,054)</u>	<u>(3,179,105)</u>	<u>18,650</u>	<u>(50,720,509)</u>
Total capital assets, being depreciated, net	48,329,954	(2,438,131)	-	45,891,823
Capital assets, not being depreciated:				
Land	1,160,821	4,200	-	1,165,021
Construction in progress (CIP)	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>175,000</u>
Total capital assets, not being depreciated	<u>1,335,821</u>	<u>4,200</u>	<u>-</u>	<u>1,340,021</u>
Governmental activities capital assets, net	<u>\$ 49,665,775</u>	<u>\$ (2,433,931)</u>	<u>\$ -</u>	<u>\$ 47,231,844</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 174,565	\$ -	\$ -	\$ 174,565
Buildings and improvements	481,602	-	-	481,602
Machinery, equipment, and furnishings	1,035,554	55,354	-	1,090,908
Vehicles	518,010	-	-	518,010
Infrastructure	<u>11,309,742</u>	<u>-</u>	<u>-</u>	<u>11,309,742</u>
Total capital assets, being depreciated	13,519,473	55,354	-	13,574,827
Less accumulated depreciation for:				
Land improvements	(141,127)	(2,994)	-	(144,121)
Buildings and improvements	(366,699)	(9,672)	-	(376,371)
Machinery, equipment, and furnishings	(808,129)	(57,004)	-	(865,133)
Vehicles	(508,748)	(2,316)	-	(511,064)
Infrastructure	<u>(1,632,848)</u>	<u>(256,228)</u>	<u>-</u>	<u>(1,889,076)</u>
Total accumulated depreciation	<u>(3,457,551)</u>	<u>(328,214)</u>	<u>-</u>	<u>(3,785,765)</u>
Total capital assets, being depreciated, net	10,061,922	(272,860)	-	9,789,062
Capital assets, not being depreciated:				
Land	<u>1,107,900</u>	<u>-</u>	<u>-</u>	<u>1,107,900</u>
Total capital assets, not being depreciated	<u>1,107,900</u>	<u>-</u>	<u>-</u>	<u>1,107,900</u>
Business-type activities capital assets, net	<u>\$ 11,169,822</u>	<u>\$ (272,860)</u>	<u>\$ -</u>	<u>\$ 10,896,962</u>

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

Governmental Activities:	
General government	\$ 64,600
Public safety	390,147
Education	1,059,022
Public works	1,363,141
Human services	37,973
Culture and recreation	<u>264,222</u>
Total depreciation expense - governmental activities	<u>\$ 3,179,105</u>
Business-Type Activities:	
Golf	\$ 80,939
Sewer	<u>247,275</u>
Total depreciation expense - business-type activities	<u>\$ 328,214</u>

## 10. Warrants and Accounts Payable

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

## 11. Deferred Inflows of Resources

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

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

	Entity-wide Basis		Fund Basis			
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor	Proprietary Funds Golf	Sewer
Unearned revenues	\$ -	\$ -	\$ 2,031,475	\$ 7,900	\$ -	\$ -
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>250,716</u>	<u>9,094</u>	<u>-</u>	<u>-</u>	<u>7,328</u>	<u>1,766</u>
Total Deferred Inflows of Resources	\$ <u>250,716</u>	\$ <u>9,094</u>	\$ <u>2,031,475</u>	\$ <u>7,900</u>	\$ <u>7,328</u>	\$ <u>1,766</u>

## 12. Notes Payable

The Town had the following note outstanding at June 30, 2015:

	Interest Rate(s) %	Date of Issue	Date of Maturity	Balance at June 30, 2015
Grant anticipation	0.50%	6/23/2015	9/23/2015	\$ <u>310,074</u>
				\$ <u>310,074</u>

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

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 505,000	\$ -	\$ (505,000)	\$ -
Grant anticipation	<u>659,045</u>	<u>310,074</u>	<u>(659,045)</u>	<u>310,074</u>
Total Governmental	\$ <u>1,164,045</u>	\$ <u>310,074</u>	\$ <u>(1,164,045)</u>	\$ <u>310,074</u>

## 13. Long-Term Debt

### A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2015
<u>Governmental Activities:</u>			
2009 multi-purpose	01/15/19	3.14	\$ 385,764
2002 multi-purpose	10/15/20	2.50 - 4.13	2,165,000
School renovations (refunding bond)	06/15/21	4.08	4,610,000
2007 multi-purpose	08/15/22	3.75 - 5.0	695,000
Middle school renovations	10/01/24	3.60 - 4.40	1,215,000
Total Governmental Activities			\$ <u>9,070,764</u>
<u>Business-Type Activities:</u>			
2009 multi-purpose	01/15/19	3.14	\$ 34,092
2002 multi-purpose	10/15/20	2.50 - 4.13	80,000
2007 multi-purpose	08/15/22	3.75 - 5.0	160,000
Sewer construction (MWPAT 08-05)	07/15/30	2	2,891,403 *
Sewer construction (MWPAT 08-05)	07/15/32	2	845,705
Sewer construction (MWPAT 08-05-A)	07/15/36	2	503,676
Total Business-Type Activities			\$ <u>4,514,876</u>

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

### B. Future Debt Service

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Governmental</u>			
2016	\$ 757,350	\$ 351,397	\$ 1,108,747
2017	732,350	322,669	1,055,019
2018	1,812,600	295,719	2,108,319
2019	1,786,964	223,320	2,010,284
2020	1,678,000	151,472	1,829,472
2021 - 2025	2,303,500	130,193	2,433,693
Total Governmental	\$ <u>9,070,764</u>	\$ <u>1,474,770</u>	\$ <u>10,545,534</u>
<u>Business-Type</u>			
2016	\$ 236,417	\$ 84,213	\$ 320,630
2017	260,765	87,855	348,620
2018	265,013	82,481	347,494
2019	269,604	76,260	345,864
2020	264,384	69,986	334,370
2021 - 2025	1,304,704	263,035	1,567,739
2026 - 2030	1,365,751	127,697	1,493,448
2031 and thereafter	548,238	19,878	568,116
Total Business-Type	\$ <u>4,514,876</u>	\$ <u>811,405</u>	\$ <u>5,326,281</u>

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

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

	Total Balance June 30, 2014 (restated)	Additions	Reductions	Total Balance June 30, 2015	Less Current Portion	Long-Term Portion June 30, 2015
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 9,828	\$ -	\$ (758)	\$ 9,070	\$ (757)	\$ 8,313
Capital lease payable	210	500	(209)	501	(201)	300
Accrued compensated absences	1,261	-	(73)	1,188	-	1,188
Net OPEB obligation	16,385	2,942	-	19,327	-	19,327
Net pension liability	37,538	545	-	38,083	-	38,083
Total Governmental	\$ <u>65,222</u>	\$ <u>3,987</u>	\$ <u>(1,040)</u>	\$ <u>68,169</u>	\$ <u>(958)</u>	\$ <u>67,211</u>
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 4,440	\$ 504	\$ (429)	\$ 4,515	\$ (236)	\$ 4,279
Capital lease payable	35	34	(24)	45	(22)	23
Net OPEB obligation	913	181	-	1,094	-	1,094
Net pension liability	575	8	-	583	-	583
Total Business-Type	\$ <u>5,963</u>	\$ <u>727</u>	\$ <u>(453)</u>	\$ <u>6,237</u>	\$ <u>(258)</u>	\$ <u>5,979</u>

**14. Capital Lease Obligations**

The Town is the lessee of certain equipment under capital leases expiring in various years through 2019. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2015:

Fiscal Year	Capital Lease
2016	\$ 240,506
2017	129,611
2018	105,957
2019	105,957
Total minimum lease payments	582,031
Less amounts representing interest	<u>(35,532)</u>
Present Value of Minimum Lease Payments	\$ <u>546,499</u>

## 15. **Restricted Net Position**

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

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

## 16. **Governmental Funds – Balances**

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

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

The following types of fund balances are reported at June 30, 2015:

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

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

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

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

sources upon vendor performance in the subsequent budgetary period, and fund balance (surplus) set aside to be used in the subsequent year's budget.

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

Following is a breakdown of the Town's fund balances at June 30, 2015:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable</b>			
Nonexpendable permanent funds	\$ -	\$ 1,278,656	\$ 1,278,656
Total Nonexpendable	-	1,278,656	1,278,656
<b>Restricted</b>			
Special revenue funds	-	3,535,303	3,535,303
Bonded projects	-	52,206	52,206
Expendable permanent funds	-	166,859	166,859
Total Restricted	-	3,754,368	3,754,368
<b>Committed</b>			
Special articles	387,119	-	387,119
Debt reserve	1,154,266	-	1,154,266
Total Committed	1,541,385	-	1,541,385
<b>Assigned</b>			
Encumbrances	453,260	-	453,260
Reserved for expenditures	930,000	-	930,000
Total Assigned	1,383,260	-	1,383,260
<b>Unassigned</b>			
General fund	1,729,719	-	1,729,719
Stabilization fund	3,258,941	-	3,258,941
Deficit funds	-	(117,453)	(117,453)
Total Unassigned	4,988,660	(117,453)	4,871,207
Total Fund Balance	\$ 7,913,305	\$ 4,915,571	\$ 12,828,876

## 17. Interfund Fund Transfers

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Consolidated general fund	\$ 104,740	\$ 111,242
Nonmajor funds:		
Special revenue funds:		
Revolving funds	3,000	-
Receipts reserved	-	64,113
Other SRF	<u>14,560</u>	<u>40,627</u>
Subtotal Nonmajor Funds	17,560	104,740
<u>Business-Type Funds:</u>		
Sewer fund	<u>93,682</u>	-
Grand Total	<u>\$ 215,982</u>	<u>\$ 215,982</u>

The Town's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

## **18. Commitments and Contingencies**

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

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

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

**19. Subsequent Events**

Debt

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

	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
Bond anticipation note	\$ 20,000	1.10%	12/8/2015	5/25/2016
Bond anticipation note	\$ 1,080,000	0.62%	12/8/2015	5/25/2016
Bond anticipation note	\$ 1,420,000	0.75%	5/25/2016	12/16/2016
Grant anticipation note	\$ 753,769	0.74%	6/30/2016	9/30/2016

**20. Post-Employment Health Care and Life Insurance Benefits**

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

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2014, the actuarial valuation date, approximately 287 retirees and 543 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

*C. Funding Policy*

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

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2014.

	Governmental	Business-Type Activities		Total
	Activities	Golf Fund	Sewer Fund	
Annual Required Contribution (ARC)	\$ 5,384,456	\$ 37,651	\$ 239,463	\$ 5,661,570
Interest on net OPEB obligation	656,208	6,729	28,982	691,919
Adjustment to ARC	(912,223)	(9,356)	(40,289)	(961,868)
Amortization of actuarial (gain) / loss	374,075	1,975	16,706	392,756
Annual OPEB cost	5,502,516	36,999	244,862	5,784,377
Contributions made	(2,560,269)	(1,364)	(99,410)	(2,661,043)
Increase in net OPEB obligation	2,942,247	35,635	145,452	3,123,334
Net OPEB obligation - beginning of year	16,384,879	174,262	738,815	17,297,956
Net OPEB obligation - end of year	\$ 19,327,126	\$ 209,897	\$ 884,267	\$ 20,421,290

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

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

The Town's net OPEB obligation as of June 30, 2015 is recorded as a long-term liability in both governmental and business-type activities.

*E. Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2014, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 69,430
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 69,430</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>0%</u>

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

In fiscal year 2014, the Town established an OPEB Trust Fund under MGL Chapter 32B, Section 20. The balance in the trust fund is \$68,840 as of June 30, 2015.

*F. Actuarial Methods and Assumptions*

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

In the January 1, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets is equal to the market value of the Plan's assets; however, the Town has not advanced funded its obligation and therefore no asset value is used in the actuarial calculation. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 5% beginning in fiscal year 2014. The

amortization costs for the UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming compensation increases of 3% per year. Actuarial gains and losses are calculated each year and amortized over a 30 year period.

## **21. Hampden County Retirement System**

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

### **A. Plan Description**

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampden County Regional Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 67 Hunt St. #116, Agawam, MA 01001.

### **B. Benefits Provided**

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five year average for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 50 for groups 1 and 2, respectively. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The

average retirement benefit is approximately 80-85% pension and 15-20% annuity.

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

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

#### C. Contributions

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

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$2,879,605, which was equal to its annual required contribution.

#### D. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System

and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

At June 30, 2015, the Town reported a liability of \$38,666,014 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Town's proportion was 13.472 percent.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,577,208. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 115,257	\$ -
Changes in proportion and differences between contributions share of contributions and proportionate	<u>-</u>	<u>259,810</u>
Total	<u>\$ 115,257</u>	<u>\$ 259,810</u>

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

Year ended June 30:	
2016	\$ (36,138)
2017	(36,138)
2018	(36,138)
2019	<u>(36,139)</u>
Total	<u>\$ (144,553)</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:

Inflation	4%
Salary increases	4.25% - 4.75%, depending on group
Investment rate of return	7.875%

Mortality rates were based on the RP-2000 Employee Mortality Table projected generationally with a Scale AA from 2010. Disabled mortality is the healthy retiree table set forward three years for males only.

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap equities	14.50%	7.75%
Small/Mid Cap equities	3.50%	8.00%
International equities (unhedged)	16.00%	8.25%
Emerging international equities	6.00%	9.50%
High-Yield bonds	1.50%	6.00%
Bank loans	1.50%	6.25%
EMD (external)	1.00%	7.00%
EMD (local currency)	2.00%	7.25%
TIPS	3.00%	4.50%
Long treasuries	10.00%	4.25%
Private equity	10.00%	9.75%
Private debt	4.00%	8.25%
Real estate (core)	10.00%	6.50%
Hedge funds	9.00%	7.00%
Timber/natural resources	4.00%	6.88%
Portfolio completion strategies	4.00%	N/A
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.875 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.875%)</u>	<u>Current Discount Rate (7.875%)</u>	<u>1% Increase (8.875%)</u>
June 30, 2015	\$ 47,381,954	\$ 38,666,014	\$ 31,239,354

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

**22. Massachusetts Teachers’ Retirement System (MTRS)**

A. Plan Description

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

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

*B. Benefits Provided*

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

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

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

*C. Contributions*

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation

7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

*D. Actuarial Assumptions*

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

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

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

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

**E. Discount Rate**

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

**F. Sensitivity Analysis**

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$21,426,000	\$17,234,000	\$13,672,000
June 30, 2014	\$20,247,000	\$15,896,000	\$12,200,000

**G. Special Funding Situation**

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

#### H. Town Proportions

In fiscal year 2014 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$43,654,865 and \$3,032,913 respectively, based on a proportionate share of 0.2746%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

### 23. **Risk Management**

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

### 24. **Beginning Net Position Restatement**

In fiscal year 2015, the Town implemented GASB Statement No. 68, Account and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. As a result of the implementation, the beginning (July 1, 2014) net position of the Town has been restated as follows:

	<u>Government-Wide Basis</u>		<u>Fund Basis</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Golf Fund</u>	<u>Sewer Fund</u>
As previously reported	\$ 35,978,509	\$ 6,998,256	\$ 1,876,915	\$ 5,053,439
GASB 68 implementation	<u>(37,538,095)</u>	<u>(574,870)</u>	<u>(463,242)</u>	<u>(111,628)</u>
As restated	<u>\$ (1,559,586)</u>	<u>\$ 6,423,386</u>	<u>\$ 1,413,673</u>	<u>\$ 4,941,811</u>

TOWN OF LUDLOW, MASSACHUSETTS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 JUNE 30, 2015  
 (Unaudited)  
 (amounts expressed in thousands)

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percent- age of Covered Payroll [(b-a)/c]
01/01/14	\$ -	\$69,430	\$ 69,430	0%	N/A	N/A
01/01/12	\$ -	\$72,226	\$ 72,226	0%	\$23,728	304.39%
01/01/09	\$ -	\$63,360	\$ 63,360	0%	\$40,443	156.66%

See Independent Auditor's Report.

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

<u>Hampden County Regional Retirement System</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	<u>13.472%</u>
Proportionate share of the net pension liability for the most recent measurement date	\$ <u>38,666,014</u>
Covered-employee payroll for the most recent measurement date	\$ <u>13,483,044</u>
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>287%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>51.38%</u>
 <u>Massachusetts Teachers' Retirement System</u>	
Proportion of the net pension liability for the most recent measurement date	0.2746%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>43,654,865</u>
Total net pension liability associated with the Town	\$ 43,654,865
Covered-employee payroll for the most recent measurement date	\$ 16,838,431
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>259%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.64%</u>

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

See Independent Auditors' Report.

TOWN OF LUDLOW, MASSACHUSETTS  
 SCHEDULE OF CONTRIBUTIONS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (Unaudited)

<u>Hampden County Regional Retirement System</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 2,879,605
Contributions in relation to the contractually required contribution	<u>2,879,605</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll for the most recent measurement period	\$ 13,483,044
Contributions as a percentage of covered-employee payroll	21%

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

See Independent Auditors' Report.