

TOWN OF GEORGETOWN, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2016

TOWN OF GEORGETOWN, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Georgetown, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Georgetown, Massachusetts, as of and for the year ended June 30, 2016 (except for the Georgetown Municipal Light Department which is as of and for the year ended December 31, 2015), and the related notes to the financial statements, which collectively comprise the Town of Georgetown, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Georgetown Municipal Light Department, which represent 54.99%, 54.62%, and 75.33%, respectively, of the assets, net position, and operating revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Georgetown Municipal Light Department, is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, 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 Georgetown, Massachusetts, as of June 30, 2016 (except for the Georgetown Municipal Light Department which is as of and for the year ended December 31, 2015), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, on our consideration of the Town of Georgetown, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Georgetown, Massachusetts' internal control over financial reporting and compliance.

Powers & Sullivan LLC

March 27, 2017

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Georgetown (Town), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

Overview of the Financial Statements

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

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

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

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

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

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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*.

Proprietary funds. The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water department, ambulance, and municipal light department.

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. The Town uses fiduciary funds to account for its OPEB trust fund, private purpose trust funds, and agency funds.

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

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources for governmental activities by \$37.6 million at the close of 2016.

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets: | | |
| Current assets..... | \$ 10,855,386 | \$ 17,627,904 |
| Noncurrent assets (excluding capital)..... | 18,821 | 23,332 |
| Capital assets..... | 84,778,312 | 75,167,718 |
| Total assets..... | 95,652,519 | 92,818,954 |
| Deferred Outflows of Resources..... | 796,706 | - |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 2,028,022 | 5,828,118 |
| Noncurrent liabilities (excluding debt)..... | 22,699,640 | 20,775,351 |
| Current debt..... | 5,610,389 | 1,792,249 |
| Noncurrent debt..... | 28,270,828 | 29,172,456 |
| Total liabilities..... | 58,608,879 | 57,568,174 |
| Deferred Inflows of Resources..... | 241,878 | 59,947 |
| Net Position: | | |
| Net investment in capital assets..... | 50,920,942 | 45,903,519 |
| Restricted..... | 3,330,552 | 4,009,623 |
| Unrestricted..... | (16,653,026) | (14,722,309) |
| Total net position..... | \$ 37,598,468 | \$ 35,190,833 |

Capital assets increased by \$9.6 million mainly due to the ongoing school, culvert and highway projects. The Town capitalized \$6.8 million for the Middle/High School, \$4.1 million for the Penn Brook School, \$317,000 for the Perley School roof, \$1 million for two culvert projects, \$408,000 for highway projects, and \$568,000 for the East Main Street project.

Current assets decreased by \$6.8 million as the Town's long-term bond proceeds from the prior year were used to retire short-term debt and fund the project in the current year.

The increase in the net investment in capital assets was also related to the Penn Brook School project and the Middle/High School project. Approximately \$3.3 million was recognized as capital grants from the Massachusetts School Building Authority (MSBA) for the reimbursement of project costs during fiscal year 2016. Liabilities decreased by approximately \$1 million which was the result of the net effect of a decrease in payables at year end related to school construction and the increase of short term borrowing for the new Middle/High School project.

The OPEB liability increase is the result of the recognition of the Governmental Accounting Standard's Board (GASB) Statement #45, which requires the Town to recognize a liability in governmental activities for its net other postemployment benefit obligation (OPEB). This liability, which equaled \$7.4 million, increased by \$1 million in 2016.

In 2015, the Town was required to implement the provisions of the Governmental Accounting Standards Board Statement #68, *Accounting and Financial Reporting for Pension* for the first time. As a member unit of the Essex Regional Retirement System (ERRS), the Town is required to report its proportionate share of the net pension liability and related deferred inflows/outflows of resources of the ERRS. As of year-end, the Town recorded a governmental net pension liability totaling \$15.1 million.

Governmental net position of \$50.9 million reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position, \$3.3 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is a deficit of \$16.7 million. This deficit is the result of the implementation of GASB #68 which required the Town to record its net pension liability of \$15.1 million along with the other postemployment benefits liability of \$7.4 million. These are long-term unfunded liabilities that will not require significant short term resources.

The Town's governmental activities net position increased \$2.4 million in 2016. The key contributors to the increase were capital grants totaling \$4 million for school construction, community preservation, and highway projects; offset by a \$1 million increase in the OPEB liability; offset with \$397,000 increase in pension liability net deferred outflows and inflows of resources. Revenue decreased \$233,000 this year due to a decrease in capital grants related to school construction and community preservation fund projects; offset with an increase state highway construction revenue, and increase in real estate and personal property taxes resulting from the Proposition 2 ½ override for the Penn Brook School.

The increase in operating grants and education expenses is related to the Massachusetts Teachers Retirement System's implementation of GASB Statements #68 and #71 which increased the revenue and corresponding education expense by \$1 million.

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| Program Revenues: | | |
| Charges for services..... | \$ 1,505,249 | \$ 1,128,396 |
| Operating grants and contributions..... | 11,060,755 | 9,830,656 |
| Capital grants and contributions..... | 3,963,369 | 6,541,230 |
| General Revenues: | | |
| Real estate and personal property taxes..... | 18,443,970 | 18,001,597 |
| Tax liens..... | 113,615 | 96,876 |
| Motor vehicle excise taxes..... | 1,552,155 | 1,281,642 |
| Meals tax..... | 71,114 | 51,725 |
| Community preservation tax..... | 412,484 | 398,193 |
| Penalties and interest on taxes..... | 61,783 | 64,734 |
| Payments in lieu of taxes..... | 49,820 | 47,879 |
| Grants and contributions not restricted to specific programs..... | 816,702 | 820,246 |
| Unrestricted investment income..... | 33,032 | 52,013 |
| Other revenues..... | 433,657 | 435,378 |
| Total revenues..... | <u>38,517,705</u> | <u>38,750,565</u> |
| Expenses: | | |
| General government..... | 2,757,850 | 2,232,468 |
| Public safety..... | 3,602,525 | 3,680,469 |
| Education..... | 26,232,622 | 22,815,869 |
| Public works..... | 1,505,820 | 2,246,794 |
| Community preservation..... | 2,803 | 92,352 |
| Human services..... | 620,766 | 431,070 |
| Culture and recreation..... | 577,433 | 697,552 |
| Interest..... | 1,072,415 | 1,000,091 |
| Total expenses..... | <u>36,372,234</u> | <u>33,196,665</u> |
| Excess before transfers..... | 2,145,471 | 5,553,900 |
| Transfers..... | <u>262,164</u> | <u>262,164</u> |
| Change in net position..... | 2,407,635 | 5,816,064 |
| Net position at beginning of year..... | <u>35,190,833</u> | <u>29,374,769</u> |
| Net position at end of year..... | <u>\$ 37,598,468</u> | <u>\$ 35,190,833</u> |

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities and deferred inflows of resources by \$15.4 million at the close of 2016.

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| Assets: | | |
| Current assets..... | \$ 6,502,252 | \$ 6,036,545 |
| Noncurrent assets (excluding capital)..... | 181,120 | - |
| Capital assets..... | <u>12,675,701</u> | <u>12,766,075</u> |
| Total assets..... | <u>19,359,073</u> | <u>18,802,620</u> |
| Deferred Outflows of Resources..... | <u>60,940</u> | <u>-</u> |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 1,213,129 | 1,226,636 |
| Noncurrent liabilities (excluding debt)..... | 3,163,136 | 3,198,636 |
| Current debt..... | 235,000 | 235,000 |
| Noncurrent debt..... | <u>1,060,000</u> | <u>1,295,000</u> |
| Total liabilities..... | <u>5,671,265</u> | <u>5,955,272</u> |
| Deferred Inflows of Resources..... | <u>25,716</u> | <u>4,921</u> |
| Net Position: | | |
| Net investment in capital assets..... | 11,603,167 | 11,498,682 |
| Unrestricted..... | <u>2,119,865</u> | <u>1,343,745</u> |
| Total net position..... | <u>\$ 13,723,032</u> | <u>\$ 12,842,427</u> |
| Program Revenues: | | |
| Charges for services..... | \$ 10,569,565 | \$ 9,392,698 |
| Operating grants and contributions..... | 27,793 | 30,646 |
| Capital grants and contributions..... | 162,500 | - |
| General Revenues: | | |
| Unrestricted investment income..... | <u>41,015</u> | <u>12,555</u> |
| Total revenues..... | <u>10,800,873</u> | <u>9,435,899</u> |
| Expenses: | | |
| Water..... | 1,205,986 | 1,211,477 |
| Ambulance..... | 298,224 | 232,894 |
| Electric Light..... | <u>8,153,894</u> | <u>7,458,796</u> |
| Total expenses..... | <u>9,658,104</u> | <u>8,903,167</u> |
| Excess before transfers..... | 1,142,769 | 532,732 |
| Transfers..... | <u>(262,164)</u> | <u>(262,164)</u> |
| Change in net position..... | 880,605 | 270,568 |
| Net position at beginning of year, as revised..... | <u>12,842,427</u> | <u>12,571,859</u> |
| Net position at end of year..... | <u>\$ 13,723,032</u> | <u>\$ 12,842,427</u> |

Business-type net position of \$11.6 million (85%) represents net investment in capital assets. The remaining \$2.1 million (15%) is available to be used for the ongoing operation of the Town's water, ambulance and Municipal Light departments.

As shown in the previous table, net position of the business-type activities increased by \$881,000. This consisted of a \$742,000 increase in the net position of the Water Department, an \$81,000 increase in the Ambulance Enterprise, and a \$58,000 increase in net position of Municipal Light Department. The increase in the Water Department is mainly the result of operating revenues assigned to meet current operating expenditures and principal payments on debt. Fiscal year 2016 was the third full year of operations for the Town's ambulance enterprise fund. This fund spent \$298,000 and collected \$378,000 during fiscal year 2016. The Municipal Light Department has transferred funds to an Other Postemployment Benefits (OPEB) Trust Fund to pre-fund its OPEB liability. This contribution totaled approximately \$288,000 for 2015. The Municipal Light Department's financial position is reported as of December 31, 2015.

The beginning net position of the Georgetown Municipal Electric Light Department has been revised to reflect the implementation of GASB Statement #68. To reflect this change, the Town has recorded a net pension liability and a deferred inflow of resources, which has resulted in the revision of the beginning net position balance of the Municipal Light Department by \$1,697,498. Previously reported net position of \$9,134,673 has been revised to \$7,437,175.

Financial Analysis of the Government's Funds

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

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

As of the end of the current year, governmental funds reported combined ending fund balances of \$5.4 million, a decrease of \$5.2 million from the prior year. This is attributable to decreases in the Community Preservation fund of \$713,000, the Penn Brook school construction of \$3.5 million, the Town capital projects fund of \$1 million, the nonmajor funds of \$62,000, and an increase in the general fund of \$96,000.

The general fund is the chief operating fund. At the end of the current year, the unassigned fund balance of the general fund totaled \$2.8 million, and the total fund balance equaled \$2.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 9.2% of general fund expenditures, while total fund balance represents approximately 9.7% of that same amount. The Town's assigned fund balance consists of \$151,000 in encumbrances. The unassigned balance of the general fund includes \$1 million in stabilization funds.

The Town has adopted the Community Preservation Act (CPA) which allows the Town to impose a surcharge on property taxes and to receive matching state funds for specified uses related to the acquisition, creation, preservation and support of open space, historic resources, land for recreational use and community housing.

The CPA requires that the Town spend or set aside for later spending a minimum of ten percent of annual revenues for open space, a minimum of ten percent of annual revenues for historic resources and a minimum of ten percent of annual revenues for community housing. As of June 30, 2016, the Town has a balance of \$2.8 million in unspent CPA funds which are classified as a major governmental fund in the fund-based financial statements. During 2016, the Town's CPA fund reported revenue of \$412,000 in surcharges, \$6,800 in investment earnings, and \$144,000 in state matching funds. Expenditures in 2016 totaled \$1.3 million. Additionally, \$80,000 was transferred from the CPA fund to the Town's affordable housing trust fund. In total, the fund reported a \$713,000 decrease.

In 2013, the Town passed, by special election, an override of Proposition 2 ½ allowing for the construction of the new Penn Brook Elementary School. The total project is estimated to cost approximately \$46 million, of which the Town will be reimbursed by the MSBA for 54.76% of eligible project costs. During 2016, the Town expended \$4.1 million and received state reimbursements totaling \$592,000 toward project costs. The ending deficit fund balance totaled \$2.2 million which will be funded by any additional MSBA reimbursements once they complete the final audit on the project and long-term debt. The project was essentially completed during fiscal year 2015 and is in the close-out phase. The school was opened for the 2015-2016 academic year.

The Town's capital project fund ended the year with a deficit fund balance of \$78,000. The fund had revenue in the amount of \$2.7 million and expenditures of \$5.9 million. During the year, the Town also issued \$1.8 million of long term debt relating to capital project activities and a transfer in from the general fund of \$302,000.

The Town maintains a general, a capital, and a reserve for accrued liabilities stabilization fund which are classified within the general fund. These stabilization funds had a cumulative year-end balance of \$1 million which represents 3% of general fund expenditures. These funds can be used for general or capital purposes upon Town Meeting approval. Please refer to Note 9 for additional information on the Town's stabilization funds.

General Fund Budgetary Highlights

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The \$392,000 increase between the original budget and the final amended budget was due to additional appropriations from free cash for general government and public safety expenditures, as well as reductions to debt service as a result of the long term borrowing.

The Town's original budget totaled \$27.6 million and included \$167,000 in amounts carried over from 2015. During 2016, the budget was increased to \$28 million and included the use of \$288,000 in free cash appropriations and \$50,000 from other available funds. Actual revenues came in higher than budgeted by \$161,000. All categories of revenue exceeded budget estimates with the exception of real estate and personal property taxes, penalties and interest on taxes, payments in lieu of taxes, and investment income revenues. Total expenditures were under budget by \$152,000. On a budgetary basis, the Town's fund balance increased by \$178,000.

Capital Asset and Debt Administration

In conjunction with the operating budget, the Town's Capital Improvement Committee (CIP Committee) has requested a 5 year Capital Improvement Plan from each department. The CIP Committee submits annual recommendations to the Finance Committee for capital items that are put on the Town Warrant for the Annual Town Meeting.

During 2016 the Town expended \$12.6 million on governmental activities capital assets consisting mainly of construction costs for the Penn Brook Elementary and Middle/High Schools, infrastructure which is mainly road and culvert improvements. The business type activities expended \$375,000, which fully related to the Municipal Light Department.

Outstanding long-term debt of the general government, as of June 30, 2016, totaled \$31.2 million, of which \$26.9 million is related to school projects; \$1.1 million is related to the library addition; \$1.8 million is related to the ESCO projects, leaving a balance of \$296,000 for other capital projects.

The Water enterprise fund and Municipal Light Department have \$975,000 and \$320,000 of debt, respectively, all of which is fully supported by the rates and is not reliant on a general fund subsidy.

Please refer to notes 4, 6, 7 and 8 in the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Georgetown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant at Memorial Town Hall, One Library Street, Georgetown, MA 01833-2086.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2016

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 8,979,921 | \$ 2,455,368 | \$ 11,435,289 |
| Restricted cash and cash equivalents..... | - | 1,597,310 | 1,597,310 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 181,921 | - | 181,921 |
| Tax liens..... | 642,389 | - | 642,389 |
| Motor vehicle excise taxes..... | 95,190 | - | 95,190 |
| Water fees..... | - | 732,813 | 732,813 |
| Ambulance fees..... | - | 84,133 | 84,133 |
| Electric light fees..... | - | 778,182 | 778,182 |
| Departmental and other..... | 125,223 | - | 125,223 |
| Special assessments..... | 3,738 | - | 3,738 |
| Intergovernmental..... | 827,004 | 41,346 | 868,350 |
| Inventory..... | - | 29,771 | 29,771 |
| Purchased power advanced deposits..... | - | 783,329 | 783,329 |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | - | 181,120 | 181,120 |
| Loans..... | 18,821 | - | 18,821 |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable..... | 5,426,628 | 501,097 | 5,927,725 |
| Depreciable..... | 79,351,684 | 12,174,604 | 91,526,288 |
| TOTAL ASSETS..... | 95,652,519 | 19,359,073 | 115,011,592 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions..... | 796,706 | 60,940 | 857,646 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 322,039 | 730,277 | 1,052,316 |
| Accrued payroll..... | 1,081,185 | 23,322 | 1,104,507 |
| Tax refunds payable..... | 69,058 | - | 69,058 |
| Accrued interest..... | 220,073 | 13,777 | 233,850 |
| Payroll withholdings..... | 198,755 | - | 198,755 |
| Abandoned property..... | 3,368 | - | 3,368 |
| Other liabilities..... | 4,140 | - | 4,140 |
| Customer deposits payable..... | - | 122,975 | 122,975 |
| Capital lease obligations..... | 92,104 | - | 92,104 |
| Compensated absences..... | 37,300 | 322,778 | 360,078 |
| Notes payable..... | 2,634,202 | - | 2,634,202 |
| Bonds payable..... | 2,976,187 | 235,000 | 3,211,187 |
| NONCURRENT: | | | |
| Capital lease obligations..... | 39,374 | - | 39,374 |
| Compensated absences..... | 228,200 | - | 228,200 |
| Net pension liability..... | 15,080,955 | 2,846,693 | 17,927,648 |
| Other postemployment benefits..... | 7,351,111 | 316,443 | 7,667,554 |
| Bonds payable..... | 28,270,828 | 1,060,000 | 29,330,828 |
| TOTAL LIABILITIES..... | 58,608,879 | 5,671,265 | 64,280,144 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions..... | 241,878 | 25,716 | 267,594 |
| NET POSITION | | | |
| Net investment in capital assets..... | 50,920,942 | 11,603,167 | 62,524,109 |
| Restricted for: | | | |
| Permanent funds: | | | |
| Expendable..... | 476,119 | - | 476,119 |
| Nonexpendable..... | 5,000 | - | 5,000 |
| Gifts and grants..... | 73,679 | - | 73,679 |
| Community preservation..... | 2,775,754 | - | 2,775,754 |
| Unrestricted..... | (16,653,026) | 2,119,865 | (14,533,161) |
| TOTAL NET POSITION..... | \$ 37,598,468 | \$ 13,723,032 | \$ 51,321,500 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|-------------------------------------|----------------------|-------------------------|--|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 2,757,850 | \$ 574,452 | \$ - | \$ - | \$ (2,183,398) |
| Public safety..... | 3,602,525 | 275,796 | 171,806 | - | (3,154,923) |
| Education..... | 26,232,622 | 476,497 | 10,097,063 | 3,307,460 | (12,351,602) |
| Public works..... | 1,505,820 | 5,948 | 766,498 | 510,569 | (222,805) |
| Community preservation..... | 2,803 | - | - | 145,340 | 142,537 |
| Human services..... | 620,766 | 163,851 | 13,457 | - | (443,458) |
| Culture and recreation..... | 577,433 | 8,705 | 11,931 | - | (556,797) |
| Interest..... | 1,072,415 | - | - | - | (1,072,415) |
| Total Governmental Activities..... | <u>36,372,234</u> | <u>1,505,249</u> | <u>11,060,755</u> | <u>3,963,369</u> | (19,842,861) |
| <i>Business-Type Activities:</i> | | | | | |
| Water..... | 1,205,986 | 2,172,890 | 27,793 | - | 994,697 |
| Ambulance..... | 298,224 | 378,273 | - | - | 80,049 |
| Electric Light..... | 8,153,894 | 8,018,402 | - | 162,500 | 27,008 |
| Total Business-Type Activities..... | <u>9,658,104</u> | <u>10,569,565</u> | <u>27,793</u> | <u>162,500</u> | 1,101,754 |
| Total Primary Government..... | <u>\$ 46,030,338</u> | <u>\$ 12,074,814</u> | <u>\$ 11,088,548</u> | <u>\$ 4,125,869</u> | \$ (18,741,107) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2016

| | Primary Government | | |
|---|----------------------------|-----------------------------|------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net position: | | | |
| Net (expense) revenue from previous page..... | \$ (19,842,861) | \$ 1,101,754 | \$ (18,741,107) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 18,443,970 | - | 18,443,970 |
| Tax liens..... | 113,615 | - | 113,615 |
| Motor vehicle excise taxes..... | 1,552,155 | - | 1,552,155 |
| Meals tax..... | 71,114 | - | 71,114 |
| Community preservation surcharge..... | 412,484 | - | 412,484 |
| Penalties and interest on taxes..... | 61,783 | - | 61,783 |
| Payments in lieu of taxes..... | 49,820 | - | 49,820 |
| Grants and contributions not restricted to specific programs..... | 816,702 | - | 816,702 |
| Unrestricted investment income..... | 33,032 | 41,015 | 74,047 |
| Miscellaneous..... | 433,657 | - | 433,657 |
| <i>Transfers, net</i> | 262,164 | (262,164) | - |
| Total general revenues and transfers..... | 22,250,496 | (221,149) | 22,029,347 |
| Change in net position..... | 2,407,635 | 880,605 | 3,288,240 |
| <i>Net Position:</i> | | | |
| Beginning of year, as revised..... | 35,190,833 | 12,842,427 | 48,033,260 |
| End of year..... | \$ <u>37,598,468</u> | \$ <u>13,723,032</u> | \$ <u>51,321,500</u> |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

| | General | Community Preservation Fund | Penn Brook School Construction | Town Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------------|--------------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents..... | \$ 3,247,126 | \$ 2,631,744 | \$ - | \$ 981,000 | \$ 2,120,051 | \$ 8,979,921 |
| Receivables, net of uncollectibles: | | | | | | |
| Real estate and personal property taxes..... | 181,921 | - | - | - | - | 181,921 |
| Tax liens and foreclosures..... | 634,689 | 6,258 | - | - | 1,442 | 642,389 |
| Motor vehicle excise taxes..... | 95,190 | - | - | - | - | 95,190 |
| Departmental and other..... | - | - | - | - | 125,223 | 125,223 |
| Special assessments..... | - | 3,738 | - | - | - | 3,738 |
| Intergovernmental..... | - | 144,059 | - | 75,487 | 607,458 | 827,004 |
| Loans..... | - | - | - | - | 18,821 | 18,821 |
| Due from other funds..... | 1,184,026 | - | - | - | - | 1,184,026 |
| TOTAL ASSETS..... | 5,342,952 | 2,785,799 | - | 1,056,487 | 2,872,995 | 12,058,233 |
| LIABILITIES | | | | | | |
| Warrants payable..... | 252,588 | 49 | - | - | 69,402 | 322,039 |
| Accrued payroll..... | 1,049,682 | - | - | - | 31,503 | 1,081,185 |
| Tax refunds payable..... | 69,058 | - | - | - | - | 69,058 |
| Payroll withholdings..... | 198,755 | - | - | - | - | 198,755 |
| Abandoned property..... | 3,368 | - | - | - | - | 3,368 |
| Other liabilities..... | 4,140 | - | - | - | - | 4,140 |
| Due to other funds..... | - | - | 726,728 | - | 457,298 | 1,184,026 |
| Notes payable..... | - | - | 1,500,000 | 1,134,202 | - | 2,634,202 |
| TOTAL LIABILITIES..... | 1,577,591 | 49 | 2,226,728 | 1,134,202 | 558,203 | 5,496,773 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenues..... | 850,654 | 9,996 | - | - | 295,646 | 1,156,296 |
| FUND BALANCES | | | | | | |
| Nonspendable..... | - | - | - | - | 5,000 | 5,000 |
| Restricted..... | - | 2,775,754 | - | - | 2,014,146 | 4,789,900 |
| Assigned..... | 151,200 | - | - | - | - | 151,200 |
| Unassigned..... | 2,763,507 | - | (2,226,728) | (77,715) | - | 459,064 |
| TOTAL FUND BALANCES..... | 2,914,707 | 2,775,754 | (2,226,728) | (77,715) | 2,019,146 | 5,405,164 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES..... | \$ 5,342,952 | \$ 2,785,799 | \$ - | \$ 1,056,487 | \$ 2,872,995 | \$ 12,058,233 |

See notes to basic financial statements.

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

JUNE 30, 2016

| | | |
|---|--------------------|---------------------|
| Total governmental fund balances..... | \$ | 5,405,164 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 84,778,312 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds..... | | 1,156,296 |
| Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions..... | | 554,828 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (220,073) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | | |
| Bonds payable..... | (31,247,015) | |
| Capital lease obligations..... | (131,478) | |
| Compensated absences..... | (265,500) | |
| Net pension liability..... | (15,080,955) | |
| Other postemployment benefits..... | <u>(7,351,111)</u> | |
| Net effect of reporting long-term liabilities..... | | <u>(54,076,059)</u> |
| Net position of governmental activities..... | \$ | <u>37,598,468</u> |

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

| | General | Community Preservation Fund | Penn Brook School Construction | Town Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------------|--------------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 18,437,341 | \$ - | \$ - | \$ - | \$ - | \$ 18,437,341 |
| Tax liens..... | 52,486 | - | - | - | - | 52,486 |
| Motor vehicle excise taxes..... | 1,495,572 | - | - | - | - | 1,495,572 |
| Meals tax..... | 71,114 | - | - | - | - | 71,114 |
| Penalties and interest on taxes..... | 59,832 | 843 | - | - | - | 60,675 |
| Payments in lieu of taxes..... | 49,820 | - | - | - | - | 49,820 |
| Intergovernmental..... | 8,714,142 | 144,059 | 591,950 | 2,705,738 | 2,807,792 | 14,963,681 |
| Departmental and other..... | 942,114 | - | 9,772 | - | 2,102,132 | 3,054,018 |
| Special assessments..... | - | - | - | - | 4,511 | 4,511 |
| Community preservation surcharge..... | - | 412,484 | - | - | - | 412,484 |
| Contributions..... | - | - | - | - | 9,044 | 9,044 |
| Investment income..... | 24,150 | 6,743 | - | - | 2,139 | 33,032 |
| TOTAL REVENUES..... | 29,846,571 | 564,129 | 601,722 | 2,705,738 | 4,925,618 | 38,643,778 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General government..... | 1,656,617 | - | - | 38,513 | 373,245 | 2,068,375 |
| Public safety..... | 2,189,891 | - | - | 770 | 217,394 | 2,408,055 |
| Education..... | 14,522,586 | - | 4,114,706 | 5,817,812 | 2,673,710 | 27,128,814 |
| Public works..... | 898,776 | - | - | - | 1,415,701 | 2,314,477 |
| Community preservation..... | - | 1,253,702 | - | - | 10,302 | 1,264,004 |
| Human services..... | 268,587 | - | - | - | 267,627 | 536,214 |
| Culture and recreation..... | 358,748 | - | - | - | 75,737 | 434,485 |
| Pension benefits..... | 3,865,857 | - | - | - | - | 3,865,857 |
| Property and liability insurance..... | 260,911 | - | - | - | - | 260,911 |
| Employee benefits..... | 3,023,638 | - | - | - | - | 3,023,638 |
| State and county charges..... | 321,211 | - | - | - | - | 321,211 |
| Debt service: | | | | | | |
| Principal..... | 1,506,061 | - | - | - | - | 1,506,061 |
| Interest..... | 1,090,352 | - | - | - | - | 1,090,352 |
| TOTAL EXPENDITURES..... | 29,963,235 | 1,253,702 | 4,114,706 | 5,857,095 | 5,033,716 | 46,222,454 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (116,664) | (689,573) | (3,512,984) | (3,151,357) | (108,098) | (7,578,676) |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Issuance of bonds and notes..... | - | - | - | 1,800,000 | - | 1,800,000 |
| Premium from issuance of bonds..... | 206,242 | 68,317 | - | - | - | 274,559 |
| Transfers in..... | 307,563 | - | - | 301,531 | 129,024 | 738,118 |
| Transfers out..... | (301,531) | (91,548) | - | - | (82,875) | (475,954) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | 212,274 | (23,231) | - | 2,101,531 | 46,149 | 2,336,723 |
| NET CHANGE IN FUND BALANCES..... | 95,610 | (712,804) | (3,512,984) | (1,049,826) | (61,949) | (5,241,953) |
| FUND BALANCES AT BEGINNING OF YEAR..... | 2,819,097 | 3,488,558 | 1,286,256 | 972,111 | 2,081,095 | 10,647,117 |
| FUND BALANCES AT END OF YEAR..... | \$ 2,914,707 | \$ 2,775,754 | \$ (2,226,728) | \$ (77,715) | \$ 2,019,146 | \$ 5,405,164 |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

| | | |
|--|--------------------|---------------------|
| Net change in fund balances - total governmental funds..... | | \$ (5,241,953) |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital outlay..... | 12,567,478 | |
| Depreciation expense..... | <u>(2,956,884)</u> | |
| Net effect of reporting capital assets..... | | 9,610,594 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p> | | |
| | | (126,073) |
| <p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p> | | |
| Capital lease principal payments..... | 116,546 | |
| Issuance of bonds..... | (1,800,000) | |
| Premium from issuance of bonds..... | (274,559) | |
| Debt service principal payments..... | <u>1,506,061</u> | |
| Net effect of recording long-term debt..... | | (451,952) |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p> | | |
| Net change in compensated absences accrual..... | 14,500 | |
| Net change in accrued interest on long-term debt..... | (64,049) | |
| Net change in deferred outflow/(inflow) of resources related to pensions..... | 614,775 | |
| Net change in net pension liability..... | (1,012,205) | |
| Net change in other postemployment benefits..... | (1,017,988) | |
| Amortization of bond premiums..... | <u>81,986</u> | |
| Net effect of recording long-term liabilities..... | | <u>(1,382,981)</u> |
| Change in net position of governmental activities..... | | <u>\$ 2,407,635</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2016

| | Business-type Activities - Enterprise Funds | | | |
|--|---|--------------------------|--|-----------------------------|
| | Water Enterprise | Ambulance Enterprise | Electric Light December 31, 2015 | Total |
| ASSETS | | | | |
| CURRENT: | | | | |
| Cash and cash equivalents..... | \$ 1,923,438 | \$ 208,639 | \$ 323,291 | \$ 2,455,368 |
| Restricted cash and cash equivalents..... | - | - | 1,597,310 | 1,597,310 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Water fees..... | 732,813 | - | - | 732,813 |
| Ambulance fees..... | - | 84,133 | - | 84,133 |
| Electric light fees..... | - | - | 778,182 | 778,182 |
| Intergovernmental..... | 41,346 | - | - | 41,346 |
| Inventory..... | - | - | 29,771 | 29,771 |
| Purchased power advanced deposits..... | - | - | 783,329 | 783,329 |
| Total current assets..... | <u>2,697,597</u> | <u>292,772</u> | <u>3,511,883</u> | <u>6,502,252</u> |
| NONCURRENT: | | | | |
| Receivables, net of allowance for uncollectibles: | | | | |
| Intergovernmental..... | 181,120 | - | - | 181,120 |
| Capital assets, net of accumulated depreciation..... | | | | |
| Nondepreciable..... | 200,926 | - | 300,171 | 501,097 |
| Depreciable..... | 5,185,394 | 154,800 | 6,834,410 | 12,174,604 |
| Total noncurrent assets..... | <u>5,567,440</u> | <u>154,800</u> | <u>7,134,581</u> | <u>12,856,821</u> |
| TOTAL ASSETS..... | <u>8,265,037</u> | <u>447,572</u> | <u>10,646,464</u> | <u>19,359,073</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows related to pensions..... | 56,064 | 4,876 | - | 60,940 |
| LIABILITIES | | | | |
| CURRENT: | | | | |
| Warrants payable..... | 14,886 | 3,165 | 712,226 | 730,277 |
| Accrued payroll..... | 15,548 | 7,774 | - | 23,322 |
| Accrued interest..... | 13,294 | - | 483 | 13,777 |
| Customer deposits payable..... | - | - | 122,975 | 122,975 |
| Compensated absences..... | 27,500 | - | 295,278 | 322,778 |
| Bonds payable..... | 155,000 | - | 80,000 | 235,000 |
| Total current liabilities..... | <u>226,228</u> | <u>10,939</u> | <u>1,210,962</u> | <u>1,448,129</u> |
| NONCURRENT: | | | | |
| Net pension liability..... | 1,061,249 | 92,294 | 1,693,150 | 2,846,693 |
| Other postemployment benefits..... | 310,414 | 6,029 | - | 316,443 |
| Bonds payable..... | 820,000 | - | 240,000 | 1,060,000 |
| Total noncurrent liabilities..... | <u>2,191,663</u> | <u>98,323</u> | <u>1,933,150</u> | <u>4,223,136</u> |
| TOTAL LIABILITIES..... | <u>2,417,891</u> | <u>109,262</u> | <u>3,144,112</u> | <u>5,671,265</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to pensions..... | 17,021 | 1,480 | 7,215 | 25,716 |
| NET POSITION | | | | |
| Net investment in capital assets..... | 4,633,786 | 154,800 | 6,814,581 | 11,603,167 |
| Unrestricted..... | 1,252,403 | 186,906 | 680,556 | 2,119,865 |
| TOTAL NET POSITION..... | <u>\$ 5,886,189</u> | <u>\$ 341,706</u> | <u>\$ 7,495,137</u> | <u>\$ 13,723,032</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

| | Business-type Activities - Enterprise Funds | | | |
|--|---|-------------------------|--|----------------------|
| | Water Enterprise | Ambulance Enterprise | Electric Light December 31, 2015 | Total |
| OPERATING REVENUES: | | | | |
| Charges for services..... | \$ 2,172,890 | \$ 378,273 | \$ 7,615,233 | \$ 10,166,396 |
| Other..... | - | - | 11,189 | 11,189 |
| TOTAL OPERATING REVENUES | 2,172,890 | 378,273 | 7,626,422 | 10,177,585 |
| OPERATING EXPENSES: | | | | |
| Cost of services and administration..... | 963,010 | 286,757 | 7,678,807 | 8,928,574 |
| Repairs and maintenance..... | - | - | 155,682 | 155,682 |
| Depreciation..... | 193,811 | 11,467 | 259,911 | 465,189 |
| TOTAL OPERATING EXPENSES | 1,156,821 | 298,224 | 8,094,400 | 9,549,445 |
| OPERATING INCOME..... | 1,016,069 | 80,049 | (467,978) | 628,140 |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income..... | 9,088 | 973 | 30,954 | 41,015 |
| Interest expense..... | (49,165) | - | (14,424) | (63,589) |
| Intergovernmental..... | 27,793 | - | - | 27,793 |
| Other revenues..... | - | - | 391,980 | 391,980 |
| Payment in lieu of taxes..... | - | - | (45,070) | (45,070) |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (12,284) | 973 | 363,440 | 352,129 |
| INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS..... | 1,003,785 | 81,022 | (104,538) | 980,269 |
| CAPITAL CONTRIBUTIONS..... | - | - | 162,500 | 162,500 |
| TRANSFERS: | | | | |
| Transfers out..... | (262,164) | - | - | (262,164) |
| CHANGE IN NET POSITION..... | 741,621 | 81,022 | 57,962 | 880,605 |
| NET POSITION AT BEGINNING OF YEAR, AS REVISED..... | 5,144,568 | 260,684 | 7,437,175 | 12,842,427 |
| NET POSITION AT END OF YEAR..... | \$ 5,886,189 | \$ 341,706 | \$ 7,495,137 | \$ 13,723,032 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

| | Business-type Activities - Enterprise Funds | | | |
|--|---|-------------------------|--|---------------------|
| | Water Enterprise | Ambulance Enterprise | Electric Light December 31, 2015 | Total |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | | | |
| Receipts from customers and users..... | \$ 1,810,429 | \$ 376,264 | \$ 7,743,567 | \$ 9,930,260 |
| Payments to employees and vendors..... | - | - | (8,052,449) | (8,052,449) |
| Payments to vendors..... | (621,811) | (99,967) | - | (721,778) |
| Payments to employees..... | (426,056) | (184,198) | - | (610,254) |
| NET CASH FROM OPERATING ACTIVITIES..... | 762,562 | 92,099 | (308,882) | 545,779 |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u> | | | | |
| Transfers out..... | (262,164) | - | - | (262,164) |
| Miscellaneous..... | - | - | 391,980 | 391,980 |
| Payments in lieu of taxes..... | - | - | (45,070) | (45,070) |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES..... | (262,164) | - | 346,910 | 84,746 |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | | | |
| Intergovernmental grants..... | 67,934 | - | - | 67,934 |
| Acquisition and construction of capital assets..... | - | - | (374,815) | (374,815) |
| Principal payments on bonds and notes..... | (114,859) | - | (80,000) | (194,859) |
| Interest expense..... | (91,550) | - | (14,538) | (106,088) |
| Capital contribution..... | - | - | 162,500 | 162,500 |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (138,475) | - | (306,853) | (445,328) |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | | | |
| Investment income..... | 9,088 | 973 | 30,954 | 41,015 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 371,011 | 93,072 | (237,871) | 226,212 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 1,552,427 | 115,567 | 2,158,472 | 3,826,466 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 1,923,438 | \$ 208,639 | \$ 1,920,601 | \$ 4,052,678 |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u> | | | | |
| Operating income (loss)..... | \$ 1,016,069 | \$ 80,049 | \$ (467,978) | \$ 628,140 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation..... | 193,811 | 11,467 | 259,911 | 465,189 |
| Deferred (outflows)/inflows related to pensions..... | (43,600) | (3,760) | 7,215 | (40,145) |
| Changes in assets and liabilities: | | | | |
| Water fees..... | (383,037) | - | - | (383,037) |
| Ambulance fees..... | - | (4,393) | - | (4,393) |
| Electric light fees..... | - | - | 117,145 | 117,145 |
| Purchased power advance deposits..... | - | - | (190,471) | (190,471) |
| Warrants payable..... | (33,805) | (6,421) | (20,160) | (60,386) |
| Accrued payroll..... | 3,194 | 5,890 | - | 9,084 |
| Liabilities due depositors..... | - | - | 4,475 | 4,475 |
| Accrued compensated absences..... | (2,500) | - | 38,178 | 35,678 |
| Net pension liability..... | (8,146) | 6,883 | (4,348) | (5,611) |
| Other postemployment benefits..... | 20,576 | 2,384 | (52,849) | (29,889) |
| Total adjustments..... | (253,507) | 12,050 | 159,096 | (82,361) |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 762,562 | \$ 92,099 | \$ (308,882) | \$ 545,779 |
| <u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u> | | | | |
| Intergovernmental subsidy of debt service..... | \$ 67,933 | | | |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

| | Other Postemployment Benefit Trust Fund | Private Purpose Trust Funds | Agency Funds |
|--|--|-----------------------------------|-----------------|
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 4,593 | \$ 2,393 | \$ 196,327 |
| Investments: | | | |
| Equity mutual funds..... | 710,362 | - | - |
| Bond mutual funds..... | 272,283 | - | - |
| TOTAL ASSETS | <u>987,238</u> | <u>2,393</u> | <u>196,327</u> |
| LIABILITIES | | | |
| Warrants payable..... | - | - | 6,441 |
| Liabilities due depositors..... | - | - | 189,886 |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>196,327</u> |
| NET POSITION | | | |
| Held in trust for OPEB and other purposes..... | \$ <u>987,238</u> | \$ <u>2,393</u> | \$ <u>-</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2016

| | Other Postemployment Benefit Trust Fund | Private Purpose Trust Funds |
|--|--|-----------------------------------|
| <u>ADDITIONS:</u> | | |
| Contributions: | | |
| Employer..... | \$ 218,969 | \$ - |
| Net investment income: | | |
| Interest..... | 27,592 | 6 |
| Intergovernmental..... | - | 222 |
| TOTAL ADDITIONS..... | 246,561 | 228 |
| CHANGE IN NET POSITION..... | 246,561 | 228 |
| NET POSITION AT BEGINNING OF YEAR..... | 740,677 | 2,165 |
| NET POSITION AT END OF YEAR..... | \$ 987,238 | \$ 2,393 |

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town did not identify any component units requiring inclusion in the basic financial statements.

The Georgetown Municipal Electric Light Department (GMELD) was established to generate and distribute electricity for municipal and residential use within the Town. The GMELD is governed by an elected three-member board and is operated by a manager appointed by the GMELD's elected board. It is not a separate legal entity and therefore the condensed financial statements of the GMELD are reported in the Town's Enterprise Fund. A complete audited financial statement for the GMELD can be obtained directly from their office at West Main Street, Georgetown, MA 01833.

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and water, ambulance, and municipal light enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported for the year ended June 30, 2016:

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

The *Community Preservation fund* is a special revenue fund used to account for the accumulation of resources for the acquisition, creation, preservation and support of open space, historic resources, land for recreational use and community housing.

The *Penn Brook School construction fund* is a capital project fund used to account for the construction costs of the new Penn Brook Elementary School.

The *Town Capital Projects fund* is used to account for and report financial resources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

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

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

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

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

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

The following proprietary funds are reported:

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

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

The *municipal light fund* is used to account for the Town's electric light activities.

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Fair Value Measurements

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

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

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

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

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

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

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported. Real estate tax liens are processed by the last day in September following the last billing cycle.

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

Motor Vehicle Excise

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

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

Water Fees

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period.

Since the Town disconnects water service for nonpayment, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Ambulance Fees

Ambulance fees are billed as services are provided. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Special Assessments

The Town assesses Water Betterments in connection with the construction and connection of water mains and services. Betterment liens are processed annually on overdue accounts and are included as a lien on the property owner's tax bill. Water liens are recorded as receivables in the year of the levy.

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

Intergovernmental

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

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

Loans

Loans receivable represent Title V loans provided through the Massachusetts Clean Water Trust to qualifying residential septic system projects.

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

With the exception of the Electric Light Department, inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

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

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

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

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

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|--|---|
| Buildings and building improvements..... | 40 |
| Equipment and furniture..... | 5-10 |
| Other improvements..... | 10-30 |
| Infrastructure..... | 40-50 |
| Vehicles..... | 5-15 |

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

Governmental Fund Financial Statements

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

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred outflows of resources related to pensions in this category.

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

Governmental Fund Financial Statements

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

J. Unavailable Revenue

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the availability criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the entity-wide (full accrual) financial statements.

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

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

Net position has been "restricted for" the following:

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

"Permanent funds - nonexpendable" represents the endowment portion of donor restricted trusts.

“Gifts and grants” represents restrictions placed on assets from outside parties and primarily consists of federal and state grants.

“Community preservation” represents amounts held for uses restricted by law for community preservation purposes.

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

N. Pensions

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

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

O. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. Use of Estimates

Government-Wide and Fund Financial Statements

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

S. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Town maintains a cash and investment pool that is available for use by all funds, except the Trust Funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the Trust Funds are held separately from those of other Town funds.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town has not formally adopted a policy for custodial credit risk of deposits. At year-end, the carrying amount of deposits (excluding GMELD) totaled \$11,305,892 and the bank balance totaled \$11,906,298. Of the bank balance, \$1,004,593 was covered by Federal Depository Insurance, \$812,331 was covered by Depositor's Insurance Fund, and \$10,089,374 was exposed to custodial credit risk because it was uninsured and uncollateralized.

As of December 31, 2015, GMELD's carrying amount of deposits totaled \$1,920,601.

Investments

The Town participates in the MMDT cash portfolio. MMDT maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months. The Town's investment in MMDT totaled \$9,419 at June 30, 2016.

GMELD had no investments at December 31, 2015, with the exception of the Light Department's contributions to the OPEB trust fund.

As of June 30, 2016, the OPEB Trust had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> |
|----------------------------|-----------------------|
| Equity Mutual Funds.....\$ | 710,362 |
| Bond Mutual Funds..... | <u>272,283</u> |
| Total Investments..... \$ | <u><u>982,645</u></u> |

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of the outside party. The Town’s policy related to custodial credit risk is to apply the guidelines established by Massachusetts General Law and to invest in institutions which are financially strong. The Town and the OPEB Trust do not have any custodial credit risk exposure for its investments since external investment pools and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical for book-entry form.

Interest Rate Risk - Investments

To manage its exposure to fair value losses arising from increasing interest rates, the Town’s investment policy limits the investment of short-term funds to maturities of one year or less.

Credit Risk - Investments

The Town’s investment policy allows for unlimited investment in MMDT and it allows all trust funds to be invested in any instruments allowed by the Legal List issued by the Banking Commissioner, regardless of their rating. The Town’s investment in MMDT at June 30, 2016 is unrated.

Fair Market Value of Investments

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

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

| Investment Type | June 30, 2016 | Fair Value Measurements Using | | |
|--|------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments measured at fair value: | | | | |
| <i>Other investments:</i> | | | | |
| Equity mutual funds..... | \$ 710,362 | \$ 710,362 | \$ - | \$ - |
| Bond mutual funds..... | 272,283 | 272,283 | - | - |
| Total investments measured at fair value..... | 982,645 | \$ 982,645 | \$ - | \$ - |
| Investments measured at amortized cost: | | | | |
| MMDT - cash portfolio..... | 9,419 | | | |
| Total investments..... | \$ 992,064 | | | |

Equity mutual funds and bond mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

MMDT cash portfolio investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The Georgetown Municipal Electric Light Department's fair market value of investments can be found in their separately issued financial statements. The Georgetown Municipal Electric Light Department is governed by a separate legal board that issues yearly financial statements which can be obtained by contacting them directly at West Street, Georgetown, Massachusetts, 01833.

NOTE 3 – RECEIVABLES

At June 30, 2016, receivables for the individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|---------------------|------------------------------------|---------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes.... | \$ 204,117 | \$ (22,196) | \$ 181,921 |
| Tax liens and foreclosures..... | 642,389 | - | 642,389 |
| Motor vehicle excise taxes..... | 157,650 | (62,460) | 95,190 |
| Departmental and other..... | 125,223 | - | 125,223 |
| Special assessments..... | 3,738 | - | 3,738 |
| Intergovernmental..... | 827,004 | - | 827,004 |
| Loans..... | 18,821 | - | 18,821 |
| Total..... | <u>\$ 1,978,942</u> | <u>\$ (84,656)</u> | <u>\$ 1,894,286</u> |

At June 30, 2016, receivables for the Town's water and ambulance enterprise funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|------------------------|---------------------|------------------------------------|---------------------|
| <u>Receivables:</u> | | | |
| Water fees..... | \$ 732,813 | \$ - | \$ 732,813 |
| Ambulance fees..... | 278,724 | (194,591) | 84,133 |
| Intergovernmental..... | 222,466 | - | 222,466 |
| Total..... | <u>\$ 1,234,003</u> | <u>\$ (194,591)</u> | <u>\$ 1,039,412</u> |

At December 31, 2015, receivables for the municipal electric light fund consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|-------------------------------|-----------------|------------------------------------|---------------|
| <u>Receivables:</u> | | | |
| Electric Light user fees..... | \$ 778,182 | \$ - | \$ 778,182 |

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

| Receivable type: | General Fund | Community Preservation Fund | Nonmajor Governmental Funds | Total |
|---|-------------------|-----------------------------------|-----------------------------------|---------------------|
| Real estate and personal property taxes.... | \$ 120,775 | \$ - | \$ - | \$ 120,775 |
| Tax liens and foreclosures..... | 634,689 | 6,258 | 1,442 | 642,389 |
| Motor vehicle excise taxes..... | 95,190 | - | - | 95,190 |
| Departmental and other..... | - | - | 125,223 | 125,223 |
| Special assessments..... | - | 3,738 | - | 3,738 |
| Intergovernmental..... | - | - | 150,160 | 150,160 |
| Loans..... | - | - | 18,821 | 18,821 |
| Total..... | <u>\$ 850,654</u> | <u>\$ 9,996</u> | <u>\$ 295,646</u> | <u>\$ 1,156,296</u> |

NOTE 4 – CAPITAL ASSETS

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

| Governmental Activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------------|-----------------------|----------------------|
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 4,522,168 | \$ 150,991 | \$ - | \$ 4,673,159 |
| Construction in progress..... | 4,865,273 | 606,629 | (4,718,433) | 753,469 |
| Total capital assets not being depreciated..... | <u>9,387,441</u> | <u>757,620</u> | <u>(4,718,433)</u> | <u>5,426,628</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and building improvements..... | 74,514,887 | 14,627,260 | - | 89,142,147 |
| Equipment and furniture..... | 1,045,099 | - | - | 1,045,099 |
| Other improvements..... | 2,809,962 | 342,388 | - | 3,152,350 |
| Infrastructure..... | 10,535,055 | 1,558,643 | - | 12,093,698 |
| Vehicles..... | 2,550,488 | - | - | 2,550,488 |
| Total capital assets being depreciated..... | <u>91,455,491</u> | <u>16,528,291</u> | <u>-</u> | <u>107,983,782</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and building improvements..... | (18,317,868) | (2,187,292) | - | (20,505,160) |
| Equipment and furniture..... | (519,639) | (111,637) | - | (631,276) |
| Other improvements..... | (810,984) | (239,183) | - | (1,050,167) |
| Infrastructure..... | (4,226,066) | (282,859) | - | (4,508,925) |
| Vehicles..... | (1,800,657) | (135,913) | - | (1,936,570) |
| Total accumulated depreciation..... | <u>(25,675,214)</u> | <u>(2,956,884)</u> | <u>-</u> | <u>(28,632,098)</u> |
| Total capital assets being depreciated, net..... | <u>65,780,277</u> | <u>13,571,407</u> | <u>-</u> | <u>79,351,684</u> |
| Total governmental activities capital assets, net..... | <u>\$ 75,167,718</u> | <u>\$ 14,329,027</u> | <u>\$ (4,718,433)</u> | <u>\$ 84,778,312</u> |

| Business Type Activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| Water Fund Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 200,926 | \$ - | \$ - | \$ 200,926 |
| <u>Capital assets being depreciated:</u> | | | | |
| Equipment and furniture..... | 149,032 | - | - | 149,032 |
| Other improvements..... | 81,070 | - | - | 81,070 |
| Infrastructure..... | 9,338,738 | - | - | 9,338,738 |
| Vehicles..... | 77,264 | - | - | 77,264 |
| Total capital assets being depreciated..... | 9,646,104 | - | - | 9,646,104 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Equipment and furniture..... | (144,640) | (1,757) | - | (146,397) |
| Other improvements..... | (55,966) | (3,611) | - | (59,577) |
| Infrastructure..... | (3,989,029) | (188,443) | - | (4,177,472) |
| Vehicles..... | (77,264) | - | - | (77,264) |
| Total accumulated depreciation..... | (4,266,899) | (193,811) | - | (4,460,710) |
| Total capital assets being depreciated, net..... | 5,379,205 | (193,811) | - | 5,185,394 |
| Total water fund activities capital assets, net..... | \$ 5,580,131 | \$ (193,811) | \$ - | \$ 5,386,320 |
| Electric Light Department Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 300,171 | \$ - | \$ - | \$ 300,171 |
| <u>Capital assets being depreciated:</u> | | | | |
| Structures and improvements..... | 568,886 | 3,800 | - | 572,686 |
| Machinery and equipment..... | 7,977,442 | 52,805 | (46,966) | 7,983,281 |
| Infrastructure..... | 4,446,604 | 318,210 | - | 4,764,814 |
| Total capital assets being depreciated..... | 12,992,932 | 374,815 | (46,966) | 13,320,781 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Structures and improvements..... | (231,672) | (10,703) | - | (242,375) |
| Machinery and equipment..... | (3,728,432) | (165,489) | 46,966 | (3,846,955) |
| Infrastructure..... | (2,313,322) | (83,719) | - | (2,397,041) |
| Total accumulated depreciation..... | (6,273,426) | (259,911) | 46,966 | (6,486,371) |
| Total capital assets being depreciated, net..... | 6,719,506 | 114,904 | - | 6,834,410 |
| Total Electric Light Department capital assets, net..... | \$ 7,019,677 | \$ 114,904 | \$ - | \$ 7,134,581 |
| Ambulance Fund Activities: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Vehicles..... | \$ 172,000 | \$ - | \$ - | \$ 172,000 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Vehicles..... | (5,733) | (11,467) | - | (17,200) |
| Total water fund activities capital assets, net..... | \$ 166,267 | \$ (11,467) | \$ - | \$ 154,800 |

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

Governmental Activities:

| | | |
|-----------------------------|----|----------------|
| General government..... | \$ | 70,336 |
| Public safety..... | | 156,266 |
| Education..... | | 2,246,830 |
| Public works..... | | 372,998 |
| Culture and recreation..... | | <u>110,454</u> |

Total depreciation expense - governmental activities..... \$ 2,956,884

Business-Type Activities:

| | | |
|---------------------|----|----------------|
| Water..... | \$ | 193,811 |
| Ambulance..... | | 11,467 |
| Electric light..... | | <u>259,911</u> |

Total depreciation expense - business-type activities..... \$ 465,189

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2016, the Town has an interfund receivable/payable totaling \$1,184,026 which exists between the general fund and highway improvements fund for \$457,298 and the general fund and the Penn Brook school construction fund for \$726,728. The purpose of this balance is to cover short-term cash needs that will be funded by future grant proceeds.

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

| Transfers Out: | Transfers In: | | | Total |
|----------------------------------|-------------------|-----------------------|-----------------------------|--------------------|
| | General Fund | Town Capital Projects | Nonmajor Governmental Funds | |
| General Fund..... | \$ - | \$ 301,531 | \$ - | \$ 301,531 (1) |
| Community Preservation Fund..... | 11,548 | - | 80,000 | 91,548 (2) |
| Nonmajor Governmental Funds... | 33,851 | - | 49,024 | 82,875 (3) |
| Water Enterprise Fund..... | <u>262,164</u> | - | - | <u>262,164 (4)</u> |
| Total..... | <u>\$ 307,563</u> | <u>\$ 301,531</u> | <u>\$ 129,024</u> | <u>\$ 738,118</u> |

- (1) Represents transfers from the general fund to the capital projects fund.
- (2) Represents a budgeted transfer from the community preservation fund to the general fund. Also represents a transfer from the community preservation fund to the nonmajor affordable housing trust fund.
- (3) Represents transfers to the general fund from septic betterments and the affordable housing trust. Also represents a transfer from special revenue to the highway improvements fund.
- (4) Represents a transfer from the water fund to the general fund for indirect costs.

NOTE 6 – CAPITAL LEASES

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

| <u>Asset:</u> | <u>Governmental Activities</u> |
|-------------------------------------|------------------------------------|
| Equipment and furniture..... | \$ 89,516 |
| Vehicles..... | <u>863,343</u> |
| Total assets..... | 952,859 |
| Less: accumulated depreciation..... | <u>(661,839)</u> |
| Total..... | <u>\$ 291,020</u> |

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

| <u>Years Ending June 30</u> | <u>Governmental Activities</u> |
|--|------------------------------------|
| 2017..... | \$ 99,142 |
| 2018..... | 22,947 |
| 2019..... | <u>22,946</u> |
| Total minimum lease payments..... | 145,035 |
| Less: amounts representing interest..... | <u>(13,557)</u> |
| Present value of minimum lease payments..... | <u>\$ 131,478</u> |

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds respectively.

Detail related to the Town's short-term debt activity for the year ended June 30, 2016, is as follows:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2015 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2016 |
|------------|-----------------------------|----------|----------|--------------------------|---------------------|--------------------|--------------------------|
| BAN | Bond Anticipation Note..... | 0.70% | 09/16/16 | \$ 204,202 | \$ - | \$ (70,000) | \$ 134,202 (1) |
| BAN | Bond Anticipation Note..... | 0.55% | 10/26/16 | - | 2,500,000 | - | 2,500,000 (2) |
| Total..... | | | | <u>\$ 204,202</u> | <u>\$ 2,500,000</u> | <u>\$ (70,000)</u> | <u>\$ 2,634,202</u> |

- (1) At maturity on September 16, 2016, the Town paid down \$70,000 of the \$134,202 BAN. The balance of \$64,202 was rolled forward into another BAN due on September 15, 2017 with an interest rate of .85%.
- (2) At maturity on October 26, 2016, the Town rolled the BAN into a new BAN for \$3.5 million, due on July 17, 2017 with an interest rate of .83%.

NOTE 8 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

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

Bonds Payable Schedule – Governmental Funds

| Project | Maturities Through | Original Amount | Interest Rate (%) | Outstanding at June 30, 2015 | Issued | Redeemed | Outstanding at June 30, 2016 |
|------------------------------------|--------------------|-----------------|-------------------|------------------------------|---------------------|-----------------------|------------------------------|
| MCWT - Title V Loans (2003)..... | 2021 | \$ 197,403 | 4.20 | \$ 62,202 | \$ - | \$ (10,400) | \$ 51,802 |
| MCWT - Title V Loans (2004)..... | 2021 | 192,045 | 4.25 | 64,184 | - | (10,661) | 53,523 |
| Landfill Closure Bonds (1999)..... | 2017 | 1,235,000 | 4.25 | 110,000 | - | (60,000) | 50,000 |
| Library Addition (2005)..... | 2025 | 2,400,000 | 4.25 | 1,200,000 | - | (120,000) | 1,080,000 |
| School (2009)..... | 2018 | 1,983,000 | 2.00-2.70 | 625,000 | - | (165,000) | 460,000 |
| Land Acquisition (2009)..... | 2017 | 87,000 | 2.00-2.50 | 20,000 | - | (10,000) | 10,000 |
| Esco (2013)..... | 2028 | 2,199,000 | 0.04-3.00 | 1,940,000 | - | (130,000) | 1,810,000 |
| School (2014)..... | 2039 | 24,000,000 | 3.00-5.00 | 23,000,000 | - | (1,000,000) | 22,000,000 |
| Field/School (2015)..... | 2036 | 2,400,000 | 3.00-4.00 | 2,400,000 | 1,000,000 | - | 3,400,000 |
| Turf (2015)..... | 2023 | 200,000 | 2.00-4.00 | 200,000 | 800,000 | - | 1,000,000 |
| Conservation (2015)..... | 2023 | 131,067 | 2.00-4.00 | 131,067 | - | - | 131,067 |
| Total Bonds Payable..... | | | | 29,752,453 | 1,800,000 | (1,506,061) | 30,046,392 |
| Add: Unamortized Premium..... | | | | 1,008,050 | 274,559 | (81,986) | 1,200,623 |
| Total Bonds Payable, net..... | | | | <u>\$ 30,760,503</u> | <u>\$ 2,074,559</u> | <u>\$ (1,588,047)</u> | <u>\$ 31,247,015</u> |

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

| Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2017..... | \$ 1,887,128 | \$ 1,100,997 | \$ 2,988,125 |
| 2018..... | 1,856,061 | 1,039,988 | 2,896,049 |
| 2019..... | 1,611,061 | 974,151 | 2,585,212 |
| 2020..... | 1,616,061 | 912,703 | 2,528,764 |
| 2021..... | 1,616,081 | 850,834 | 2,466,915 |
| 2022..... | 1,590,000 | 788,828 | 2,378,828 |
| 2023..... | 1,595,000 | 717,153 | 2,312,153 |
| 2024..... | 1,445,000 | 658,143 | 2,103,143 |
| 2025..... | 1,450,000 | 602,745 | 2,052,745 |
| 2026..... | 1,335,000 | 560,205 | 1,895,205 |
| 2027..... | 1,340,000 | 519,745 | 1,859,745 |
| 2028..... | 1,345,000 | 479,125 | 1,824,125 |
| 2029..... | 1,170,000 | 441,225 | 1,611,225 |
| 2030..... | 1,070,000 | 396,125 | 1,466,125 |
| 2031..... | 1,070,000 | 355,025 | 1,425,025 |
| 2032..... | 1,070,000 | 313,713 | 1,383,713 |
| 2033..... | 1,070,000 | 272,188 | 1,342,188 |
| 2034..... | 1,070,000 | 230,663 | 1,300,663 |
| 2035..... | 1,070,000 | 188,925 | 1,258,925 |
| 2036..... | 1,070,000 | 146,975 | 1,216,975 |
| 2037..... | 900,000 | 108,000 | 1,008,000 |
| 2038..... | 900,000 | 72,000 | 972,000 |
| 2039..... | 900,000 | 36,000 | 936,000 |
| Totals..... | \$ <u>30,046,392</u> | \$ <u>11,765,456</u> | \$ <u>41,811,848</u> |

Bonds Payable Schedule – Municipal Light Enterprise Fund

| Project | Maturities Through | Original Amount | Average Interest Rate (%) | Outstanding at December 31, 2014 | Issued | Redeemed | Outstanding at December 31, 2015 |
|--|--------------------|-----------------|---------------------------|----------------------------------|--------|--------------------|----------------------------------|
| Electric Light Sub-station (2005)..... | 2020 | \$ 1,200,000 | 4.25 | \$ <u>400,000</u> | \$ - | \$ <u>(80,000)</u> | \$ <u>320,000</u> |

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

| Year | Principal | Interest | Total |
|-------------|-------------------|------------------|-------------------|
| 2017..... | \$ 80,000 | \$ 10,300 | \$ 90,300 |
| 2018..... | 80,000 | 7,410 | 87,410 |
| 2019..... | 80,000 | 4,480 | 84,480 |
| 2020..... | 80,000 | 1,500 | 81,500 |
| Totals..... | \$ <u>320,000</u> | \$ <u>23,690</u> | \$ <u>343,690</u> |

Bonds Payable Schedule – Water Enterprise Fund

| Project | Maturities Through | Original Amount | Interest Rate (%) | Outstanding at June 30, 2015 | Issued | Redeemed | Outstanding at June 30, 2016 |
|--|--------------------|-----------------|-------------------|------------------------------|-------------|---------------------|------------------------------|
| MCWT (2005)..... | 2021 | \$ 1,899,012 | 5.20 | \$ 830,000 | \$ - | \$ (130,000) | \$ 700,000 |
| General Obligation Water Bonds (2005)..... | 2025 | 500,000 | 4.25 | 300,000 | - | (25,000) | 275,000 |
| Total..... | | | | <u>\$ 1,130,000</u> | <u>\$ -</u> | <u>\$ (155,000)</u> | <u>\$ 975,000</u> |

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

| Year | Principal | Interest | Total |
|-------------|-------------------|-------------------|---------------------|
| 2017..... | \$ 155,000 | \$ 42,185 | \$ 197,185 |
| 2018..... | 160,000 | 33,904 | 193,904 |
| 2019..... | 170,000 | 25,974 | 195,974 |
| 2020..... | 175,000 | 18,292 | 193,292 |
| 2021..... | 180,000 | 9,901 | 189,901 |
| 2022..... | 30,000 | 4,800 | 34,800 |
| 2023..... | 35,000 | 3,500 | 38,500 |
| 2024..... | 35,000 | 2,100 | 37,100 |
| 2025..... | 35,000 | 700 | 35,700 |
| Totals..... | <u>\$ 975,000</u> | <u>\$ 141,356</u> | <u>\$ 1,116,356</u> |

The Town has received bonds from the Massachusetts Clean Water Trust (MCWT) for various water and sewer projects. The remaining scheduled loan repayments, including interest, total \$910,080 at June 30, 2016. The Town is scheduled to be subsidized by the MCWT on a periodic basis for principal in the amount of \$222,466 and interest costs for \$89,752. Thus, net MCWT loan repayments, including interest, are scheduled to be \$597,861. The principal subsidies are guaranteed and therefore a \$222,466 intergovernmental receivable has been recorded in the Water Enterprise Fund at June 30, 2016. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements.

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

| Purpose | Amount |
|--------------------------------------|----------------------|
| Penn Brook Feasibility Study..... | \$ 333,000 |
| Energy Services Performance..... | 1,801,000 |
| Dump Truck..... | 398 |
| Penn Brook Construction Project..... | 21,004,400 |
| Elm Street Rehabilitation..... | 1,800,000 |
| Middle/High School Renovation..... | 3,405,726 |
| Total..... | <u>\$ 28,344,524</u> |

Changes in Long-term Liabilities

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------|
| Governmental Activities: | | | | | |
| Long-term bonds..... | \$ 29,752,453 | \$ 1,800,000 | \$ (1,506,061) | \$ 30,046,392 | \$ 1,887,128 |
| Add: Unamortized premium..... | 1,008,050 | 274,559 | (81,986) | 1,200,623 | 1,089,057 |
| Total Long-term bonds..... | <u>30,760,503</u> | <u>2,074,559</u> | <u>(1,588,047)</u> | <u>31,247,015</u> | <u>2,976,185</u> |
| Net pension liability..... | 14,068,750 | 2,600,460 | (1,588,255) | 15,080,955 | - |
| Other postemployment benefits.... | 6,333,123 | 1,677,687 | (659,699) | 7,351,111 | - |
| Capital leases..... | 248,024 | - | (116,546) | 131,478 | 92,104 |
| Compensated absences..... | <u>280,000</u> | <u>23,500</u> | <u>(38,000)</u> | <u>265,500</u> | <u>37,300</u> |
| Total governmental activity long-term liabilities..... | <u>\$ 51,690,400</u> | <u>\$ 6,376,206</u> | <u>\$ (3,990,547)</u> | <u>\$ 54,076,059</u> | <u>\$ 3,105,589</u> |
| Business-Type Activities: | | | | | |
| Long-term bonds..... | \$ 1,530,000 | \$ - | \$ (235,000) | \$ 1,295,000 | \$ 235,000 |
| Net pension liability..... | 1,154,806 | 1,870,421 | (178,534) | 2,846,693 | - |
| Other postemployment benefits.... | 346,332 | 282,272 | (312,161) | 316,443 | - |
| Compensated absences..... | <u>287,100</u> | <u>322,778</u> | <u>(287,100)</u> | <u>322,778</u> | <u>322,778</u> |
| Total business-type activity long-term liabilities..... | <u>\$ 3,318,238</u> | <u>\$ 2,475,471</u> | <u>\$ (1,012,795)</u> | <u>\$ 4,780,914</u> | <u>\$ 557,778</u> |

The governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

In addition to the nonspendable fund balance, spendable fund balances are classified based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2016, the governmental fund balances consisted of the following:

| | General | Community Preservation Fund | Penn Brook School Construction | Town Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------------|--------------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| FUND BALANCES | | | | | | |
| Nonspendable: | | | | | | |
| Permanent fund principal..... | \$ - | \$ - | \$ - | \$ - | 5,000 | \$ 5,000 |
| Restricted for: | | | | | | |
| Community preservation..... | - | 2,775,754 | - | - | - | 2,775,754 |
| Town revolving funds..... | - | - | - | - | 239,972 | 239,972 |
| Town gift and grant funds..... | - | - | - | - | 36,802 | 36,802 |
| Town receipts reserved for appropriation..... | - | - | - | - | 301,212 | 301,212 |
| School lunch..... | - | - | - | - | 9,997 | 9,997 |
| School revolving funds..... | - | - | - | - | 788,457 | 788,457 |
| School gift and grant funds..... | - | - | - | - | 36,877 | 36,877 |
| Other special revenue accounts..... | - | - | - | - | 124,710 | 124,710 |
| Expendable permanent funds..... | - | - | - | - | 476,119 | 476,119 |
| Assigned to: | | | | | | |
| General government..... | 22,819 | - | - | - | - | 22,819 |
| Public safety..... | 3,152 | - | - | - | - | 3,152 |
| Education..... | 2,150 | - | - | - | - | 2,150 |
| Public works..... | 82,254 | - | - | - | - | 82,254 |
| Human services..... | 3,521 | - | - | - | - | 3,521 |
| Culture and recreation..... | 400 | - | - | - | - | 400 |
| Employee benefits..... | 2,280 | - | - | - | - | 2,280 |
| Budgeted overlay surplus..... | 34,624 | - | - | - | - | 34,624 |
| Unassigned..... | 2,763,507 | - | (2,226,728) | (77,715) | - | 459,064 |
| TOTAL FUND BALANCES..... | \$ 2,914,707 | \$ 2,775,754 | \$ (2,226,728) | \$ (77,715) | \$ 2,019,146 | \$ 5,405,164 |

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. The stabilization fund balance can be used for general and/or capital purposes upon approval of Town Meeting. In accordance with Massachusetts General Law, the Town has established a general stabilization fund, a capital stabilization fund and a compensated absences stabilization fund.

At year end the balance of the general stabilization fund is \$982,265 and is reported as unassigned fund balance within the general fund. The balance of the capital stabilization fund is \$4,713 and is reported as unassigned fund balance within the general fund. The balance of the compensated absences stabilization fund is \$19,021 and is reported as unassigned fund balance within the general fund.

NOTE 10 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

NOTE 11 – MUNICIPAL LIGHT DEPARTMENT

The Town of Georgetown acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Georgetown Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. Under the PSAs, each Participant is unconditionally

obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

As of December 31, 2015, total capital expenditures for MMWEC's Projects amounted to \$1,626,959,000, of which \$12,745,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects from Power Supply Project Revenue Bonds totals \$112,510,000, of which \$876,000 is associated with the Department's share of Project Capability. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$121,353,000, of which \$949,000 is anticipated to be billed to the Department in the future.

The aggregate amount of Georgetown Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2015 and estimated for future years is shown below.

| For Years Ended December 31, | Annual Cost |
|---------------------------------|-------------------|
| 2016..... | \$ 452,000 |
| 2017..... | 406,000 |
| 2018..... | 16,000 |
| 2019..... | <u>74,000</u> |
| Total..... | <u>\$ 948,000</u> |

In addition, under the PSA's, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$1,245,000 and \$1,257,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 12 – PENSION PLAN

Plan Descriptions

The Town is a member of the Essex Regional Retirement System (ERRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of its member units. The system is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The ERRS issues a publicly available audited financial report. That report may be obtained by contacting the ERRS located at 491 Maple Street, Danvers, Massachusetts, 01923 or by visiting www.essexregional.com or www.mass.gov/perac.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the 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 the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$2,437,263 is reported in the general fund as intergovernmental revenue and pension expense in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$30,049,273 as of the measurement date.

Benefits Provided

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

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

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

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ERRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015, was \$1,428,594 and 21.96% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

At June 30, 2016, the Town reported a liability of \$16,234,498 for its proportionate share of the net pension liability. At December 31, 2015, the Municipal Light Department reported a liability of \$1,693,150 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 for the Town and December 31, 2014 for the Municipal Light Department, and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2015, the Town's proportion was 4.979%, exclusive of the Municipal Light Department; the Georgetown Municipal Electric Light Department's proportion was 0.499%. The Town's proportion decreased from the proportion measured at December 31, 2014 by 0.007%.

Pension expense

For the year ended June 30, 2016, the Town recognized a pension expense of \$1,630,718. At June 30, 2016, and December 31, 2015, the Town and the municipal light department reported deferred outflows/ (inflows) of resources related to pensions of \$597,267 and (\$7,215), respectively.

The balances of deferred outflows/ (inflows) related to pensions for the Town, excluding the municipal light department, at June 30, 2016 consist of the following:

| Deferred category | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|---|--------------------------------------|-------------------------------------|-------------------|
| Difference between projected and actual earnings..... | \$ 857,646 | \$ - | \$ 857,646 |
| Changes in proportionate share of contributions..... | <u>-</u> | <u>(260,379)</u> | <u>(260,379)</u> |
| Total Deferred Outflows/(Inflows) of Resources..... | <u>\$ 857,646</u> | <u>\$ (260,379)</u> | <u>\$ 597,267</u> |

The deferred outflows/ (inflows) of resources related to pensions for the Town, excluding the municipal light department, will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|-------------------|
| 2017..... | \$ 162,336 |
| 2018..... | 162,336 |
| 2019..... | 162,336 |
| 2020..... | 162,336 |
| 2021..... | <u>(52,077)</u> |
| Total..... | <u>\$ 597,267</u> |

The balances of deferred outflows/ (inflows) related to pensions for the municipal light department at December 31, 2015 consists of the following:

| Deferred category | Deferred Inflows of Resources |
|--|-------------------------------------|
| Changes in proportionate share of contributions..... | <u>\$ (7,215)</u> |

The deferred outflows/ (inflows) of resources related to pensions for the municipal light department will be recognized in pension expense as follows:

| | |
|--------------------------------|------------------------------|
| <u>Year ended December 31:</u> | |
| 2016..... | \$ (1,804) |
| 2017..... | (1,804) |
| 2018..... | (1,804) |
| 2019..... | <u>(1,803)</u> |
| Total..... | \$ <u><u>(7,215)</u></u> |

Actuarial Assumptions

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

| | |
|------------------------------------|--|
| Valuation date..... | January 1, 2014 |
| Actuarial cost method..... | Entry Age Normal Cost Method. |
| Amortization method..... | Closed - Approximate level percent of payroll. |
| Remaining amortization period..... | 20 years for the fresh start base. |
| Asset valuation method..... | Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. |
| Projected salary increases..... | Select and Ultimate. 7.50% year one, 6.50% year two, 6.00% year three, 5.50% year four, 5.00% year five, 3.75% ultimate rate. |
| Cost of living adjustments..... | 3.0% of the first \$13,000 of a members retirement allowance is assumed to be granted every year. |
| Rates of retirement..... | Varies based upon age for general employees, police and fire employees. |
| Rates of disability..... | Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and Group 2 and 10% ordinary and 90% accidental for Group 4. |

Mortality Rates:

| | |
|-----------------------|--|
| Pre-Retirement..... | The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table was used. Post-employment the healthy annuitant table is used. |
| Disabled Retiree..... | The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by two years. Death is assumed to be due to the same cause as the disability 40% of the time. |

Investment rate of return/Discount rate..... 8.00% per year.

Investment policy

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

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

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

Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.04%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

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

Sensitivity of the net pension liability to changes in the discount rate

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

| | <u>1% Decrease (7.00%)</u> | <u>Current Discount (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|---|---|---|--------------------------------|
| | <u>December 31, 2015 Measurement Date</u> | | |
| The Town's proportionate share of the net pension liability..... | \$ 19,911,504 | \$ 16,234,498 | \$ 13,392,626 |
| | <u>December 31, 2014 Measurement Date</u> | | |
| The Municipal Light Plant's proportionate share of the net pension liability..... | \$ 2,084,922 | \$ 1,693,150 | \$ 1,378,293 |

The ERRS total proportionate share of the net pension liability for Georgetown is \$18,092,138 includes \$16,234,498 for the Town and \$1,857,640 for the Georgetown Municipal Light Department that will not be recorded until their calendar year-end of December 31, 2016.

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

NOTE 13 – COMMUNITY PRESERVATION FUNDS

The Town approved the Community Preservation Act (CPA) which allows the Town to impose a surcharge on property taxes and to receive matching state funds for specified uses related to the acquisition, creation, preservation, and support of open space, historic resources, land for recreational use and community housing. The CPA requires that the Town spend or set aside for later spending a minimum of ten percent of annual revenues for open space, a minimum of ten percent of annual revenues for historic resources and a minimum of ten percent of annual revenues for community housing.

In accordance with the CPA, the Town has approved a new bylaw establishing a Community Preservation Committee (CPC) to study the needs, possibilities and resources of the Town regarding community preservation and to make recommendations for Town Meeting approval to fund eligible projects using CPA funds.

As of June 30, 2016, the CPA fund has a balance of \$2.8 million and is reported as a major fund in the governmental fund financial statements.

NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town and the GMELD are required to contribute 69-60 percent of the cost of current-year premiums for health insurance and 50 percent of the cost of current year dental and life insurance premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 31-50 percent of their premium costs. The Town and the GMELD may contribute additional amounts to pre-fund benefits. The Town contributed approximately \$684,000 during 2016 and the GMELD contributed approximately \$288,000.

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

| | Governmental Activities and Water and Ambulance Enterprise Funds | Electric Light Enterprise Fund |
|--|--|-----------------------------------|
| Annual required contribution..... | \$ 1,726,359 | \$ 236,284 |
| Interest on net OPEB obligation..... | 265,458 | 2,642 |
| Adjustments to annual required contribution..... | (369,026) | (3,675) |
| Amortization of actuarial (gains)/losses..... | 101,917 | - |
| Annual OPEB cost (expense)..... | <u>1,724,708</u> | <u>235,251</u> |
| Contributions made..... | <u>(683,760)</u> | <u>(288,100)</u> |
| Increase in net OPEB obligation..... | 1,040,948 | (52,849) |
| Net OPEB obligation - beginning of year..... | <u>6,626,606</u> | <u>52,849</u> |
| Net OPEB obligation - end of year..... | <u>\$ 7,667,554</u> | <u>\$ -</u> |

The Electric Light amounts are shown for the year ended December 31, 2015.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 was as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|------------------|--|---------------------|
| <u>Governmental Activities and Water and Ambulance Enterprise Funds</u> | | | |
| 6/30/2016 | \$ 1,724,708 | 40% | \$ 7,667,554 |
| 6/30/2015 | 1,642,804 | 41% | 6,626,606 |
| 6/30/2014 | 1,560,630 | 65% | 5,657,735 |
| <u>Electric Light Enterprise Fund</u> | | | |
| 12/31/2015 | \$ 235,251 | 122% | \$ - |
| 12/31/2014 | 228,280 | 77% | 52,849 |
| 12/31/2013 | 201,853 | 122% | - |

Funded Status and Funding Progress – The funded status of the Plan as of the most recent actuarial valuation date is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| <u>Governmental Activities and Water and Ambulance Enterprise Funds</u> | | | | | | |
| 7/1/2014 | \$ 55,154 | \$ 16,331,244 | \$ 16,276,090 | 0.3% | \$ N/A | N/A |
| 7/1/2012 | - | 23,473,313 | 23,473,313 | 0.0% | N/A | N/A |
| 7/1/2010 | - | 16,574,112 | 16,574,112 | 0.0% | N/A | N/A |
| <u>Electric Light Enterprise Fund</u> | | | | | | |
| 1/1/2014 | \$ 504,508 | \$ 2,167,901 | \$ 1,663,393 | 23% | \$ 721,964 | 230.4% |
| 1/1/2012 | 238,994 | 2,208,329 | 1,969,335 | 11% | 625,106 | 315.0% |
| 7/1/2010 | - | 1,927,341 | 1,927,341 | 0% | 499,383 | 385.9% |

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

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the

employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following additional information is provided for the latest actuarial valuations:

Governmental Activities and Water and Ambulance Enterprise Funds

Actuarial Methods:

| | |
|------------------------------------|--|
| Valuation date..... | July 1, 2014 |
| Actuarial cost method..... | Projected Unit Credit |
| Amortization method..... | Level dollar amortization over 30 years at last valuation |
| Remaining amortization period..... | 26 years as of July 1, 2014, closed |
| Asset valuation method..... | Market Value |

Actuarial Assumptions:

| | |
|------------------------------------|----------------------------------|
| Investment rate of return..... | 4.0%, per annum |
| General inflation assumption..... | 2.5%, per annum |
| Health care cost trend rate..... | 6.0% graded to 5.0% over 3 years |
| Annual compensation increases..... | 3.0% |

Electric Light Enterprise Fund

Actuarial Methods:

| | |
|------------------------------------|--|
| Valuation date..... | January 1, 2014 |
| Actuarial cost method..... | Projected Unit Credit |
| Remaining amortization period..... | 30 years as of January 1, 2014, closed |
| Asset valuation method..... | Market Value |

Actuarial Assumptions:

| | |
|-----------------------------------|----------------------------------|
| Investment rate of return..... | 5.0% per annum |
| Medical/drug cost trend rate..... | 9.0% graded to 5.0% over 6 years |
| Dental..... | 5.0% per year |

NOTE 15 – COMMITMENTS

In 2016, the Town has additional authorized but not yet issued debt of \$1.8 million for energy upgrades, \$1.8 million for street rehabilitation, and \$3.4 million for Middle School/High School renovations and the High School field rehabilitation project.

NOTE 16 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2016, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

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

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2017, which is the date the financial statements were available to be issued.

NOTE 18 – REVISION OF STATEMENT OF NET POSITION

Beginning net position of the Electric Light enterprise fund has been revised to reflect the implementation of GASB Statements #68 and #71. To reflect this change, the Electric Light enterprise fund has recorded a net pension liability and a deferred inflow of resources, which has resulted in the revision of the December 31, 2015 balance by \$1,697,498. Previously reported net position of \$9,134,673 has been revised to \$7,437,175.

NOTE 19 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This pronouncement did not impact the basic financial statements.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.

- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.

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

Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|---------------------|---------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 18,484,411 | \$ 18,484,411 | \$ 18,615,911 |
| Tax liens..... | - | - | - | - |
| Motor vehicle excise taxes..... | - | 1,272,667 | 1,272,667 | 1,272,667 |
| Meals excise tax..... | - | 52,000 | 52,000 | 52,000 |
| Penalties and interest on taxes..... | - | 62,000 | 62,000 | 62,000 |
| Payments in lieu of taxes..... | - | 50,000 | 50,000 | 50,000 |
| Intergovernmental..... | - | 6,182,613 | 6,182,613 | 6,182,613 |
| Departmental and other..... | - | 957,764 | 957,764 | 957,764 |
| Investment income..... | - | 24,000 | 24,000 | 24,000 |
| TOTAL REVENUES..... | - | 27,085,455 | 27,085,455 | 27,216,955 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 83,149 | 1,571,876 | 1,655,025 | 1,727,302 |
| Public safety..... | 5,032 | 2,127,640 | 2,132,672 | 2,144,172 |
| Education..... | - | 14,516,316 | 14,516,316 | 14,528,898 |
| Public works..... | 75,475 | 828,897 | 904,372 | 981,545 |
| Human services..... | - | 296,269 | 296,269 | 292,769 |
| Culture and recreation..... | - | 365,029 | 365,029 | 365,029 |
| Pension benefits..... | - | 1,428,594 | 1,428,594 | 1,428,594 |
| Property and liability insurance..... | - | 232,180 | 232,180 | 260,911 |
| Employee benefits..... | 2,893 | 2,994,158 | 2,997,051 | 3,033,102 |
| State and county charges..... | - | 326,304 | 326,304 | 326,304 |
| Debt service: | | | | |
| Principal..... | - | 1,576,061 | 1,576,061 | 1,506,061 |
| Interest..... | - | 1,159,633 | 1,159,633 | 1,123,573 |
| TOTAL EXPENDITURES..... | 166,549 | 27,422,957 | 27,589,506 | 27,718,260 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (166,549) | (337,502) | (504,051) | (501,305) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Premium from issuance of bonds..... | - | - | - | - |
| Transfers in..... | - | 337,502 | 337,502 | 307,563 |
| Transfers out..... | - | - | - | (263,552) |
| TOTAL OTHER FINANCING SOURCES (USES).... | - | 337,502 | 337,502 | 44,011 |
| NET CHANGE IN FUND BALANCE..... | (166,549) | - | (166,549) | (457,294) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | - | 1,738,548 | 1,738,548 |
| BUDGETARY FUND BALANCE, End of year..... | \$ (166,549) | \$ - | \$ 1,571,999 | \$ 1,281,254 |

See notes to required supplementary information.

| | Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance to Final Budget |
|----|--------------------------------|--|--------------------------------|
| \$ | 18,408,812 | \$ - | \$ (207,099) |
| | 52,486 | - | 52,486 |
| | 1,495,572 | - | 222,905 |
| | 71,114 | - | 19,114 |
| | 59,832 | - | (2,168) |
| | 49,820 | - | (180) |
| | 6,276,879 | - | 94,266 |
| | 942,114 | - | (15,650) |
| | 20,965 | - | (3,035) |
| | <u>27,377,594</u> | <u>-</u> | <u>160,639</u> |
| | 1,656,617 | 22,819 | 47,866 |
| | 2,113,695 | 3,152 | 27,325 |
| | 14,522,586 | 2,150 | 4,162 |
| | 898,776 | 82,254 | 515 |
| | 268,587 | 3,521 | 20,661 |
| | 358,748 | 400 | 5,881 |
| | 1,428,594 | - | - |
| | 260,911 | - | - |
| | 3,023,638 | 2,280 | 7,184 |
| | 321,211 | - | 5,093 |
| | 1,506,061 | - | - |
| | <u>1,090,352</u> | <u>-</u> | <u>33,221</u> |
| | <u>27,449,776</u> | <u>116,576</u> | <u>151,908</u> |
| | <u>(72,182)</u> | <u>(116,576)</u> | <u>312,547</u> |
| | 206,242 | - | 206,242 |
| | 307,563 | - | - |
| | <u>(263,552)</u> | <u>-</u> | <u>-</u> |
| | <u>250,253</u> | <u>-</u> | <u>206,242</u> |
| | 178,071 | (116,576) | 518,789 |
| | <u>1,738,548</u> | <u>-</u> | <u>-</u> |
| \$ | <u><u>1,916,619</u></u> | <u><u>(116,576)</u></u> | <u><u>518,789</u></u> |

Pension Plan Schedules

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

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

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

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

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

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

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

| | December 31, 2014 | December 31, 2015 |
|--|----------------------|----------------------|
| Town's proportion of the net pension liability (asset)..... | 4.986% | 4.979% |
| Town's proportionate share of the net pension liability (asset)..... \$ | 16,916,706 | \$ 18,092,138 |
| Town's covered employee payroll..... \$ | 6,238,036 | \$ 6,505,666 |
| Net pension liability as a percentage of covered-employee payroll..... | 271.19% | 278.10% |
| Plan fiduciary net position as a percentage of the total pension liability..... | 52.27% | 51.01% |

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

See notes to required supplementary information.

**SCHEDULE OF THE LIGHT DEPARTMENT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
ESSEX COUNTY CONTRIBUTORY RETIREMENT SYSTEM**

| | December 31, 2014 |
|---|----------------------|
| Light Department's proportion of the net pension liability (asset)..... | 0.499% |
| Light Department's proportionate share of the net pension liability (asset)..... \$ | 1,693,150 |
| Light Department's covered employee payroll..... \$ | 624,427 |
| Net pension liability as a percentage of covered-employee payroll..... | 271.15% |
| Plan fiduciary net position as a percentage of the total pension liability..... | 52.27% |

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

See notes to required supplementary information.

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS
ESSEX COUNTY CONTRIBUTORY RETIREMENT SYSTEM**

| | December 31, 2014 | December 31, 2015 |
|--|----------------------|----------------------|
| Actuarially determined contribution..... | \$ 1,197,672 | \$ 1,281,911 |
| Contributions in relation to the actuarially determined contribution..... | <u>(1,197,672)</u> | <u>(1,281,911)</u> |
| Contribution deficiency (excess)..... | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll..... | \$ 6,238,036 | \$ 6,505,666 |
| Contributions as a percentage of covered- employee payroll..... | 19.20% | 19.70% |

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

See notes to required supplementary information.

**SCHEDULE OF THE LIGHT DEPARTMENT'S CONTRIBUTIONS
ESSEX COUNTY CONTRIBUTORY RETIREMENT SYSTEM**

| | December 31, 2014 |
|--|----------------------|
| Actuarially determined contribution..... | \$ 133,204 |
| Contributions in relation to the actuarially determined contribution..... | (133,204) |
| Contribution deficiency (excess)..... | \$ - |
| Covered-employee payroll..... | \$ 624,427 |
| Contributions as a percentage of covered- employee payroll..... | 21.33% |

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

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

| <u>Fiscal Year</u> | <u>Commonwealth's 100% Share of the Net Pension Liability Associated with the Town</u> | <u>Town's Expense and Revenue Recognized for the Commonwealth's Support</u> | <u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u> |
|--------------------|--|---|---|
| 2016..... | \$ 30,049,273 | \$ 2,437,263 | 55.38% |
| 2015..... | \$ 23,474,527 | \$ 1,630,888 | 61.64% |

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

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|--|---|------------------------------------|--------------------------|---------------------------|---|
| <u>Governmental Activities and Water and Ambulance Enterprise Funds</u> | | | | | | |
| 7/1/2014 | \$ 55,154 | \$ 16,331,244 | \$ 16,276,090 | 0.3% | \$ N/A | N/A |
| 7/1/2012 | - | 23,473,313 | 23,473,313 | 0.0% | N/A | N/A |
| 7/1/2010 | - | 16,574,112 | 16,574,112 | 0.0% | N/A | N/A |
| <u>Electric Light Enterprise Fund</u> | | | | | | |
| 1/1/2014 | \$ 504,508 | \$ 2,167,901 | \$ 1,663,393 | 23% | \$ 721,964 | 230.4% |
| 1/1/2012 | 238,994 | 2,208,329 | 1,969,335 | 11% | 625,106 | 315.0% |
| 7/1/2010 | - | 1,927,341 | 1,927,341 | 0% | 499,383 | 385.9% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended | Annual Required Contribution | Actual Contributions Made | Percentage Contributed |
|---|------------------------------------|---------------------------------|---------------------------|
| <u>Governmental Activities and Water and Ambulance Enterprise Funds</u> | | | |
| 6/30/2016 | \$ 1,726,359 | \$ 683,760 | 40% |
| 6/30/2015 | 1,681,622 | 673,933 | 40% |
| 6/30/2014 | 1,893,760 | 1,008,087 | 53% |
| 6/30/2013 | 1,767,076 | 922,230 | 52% |
| 6/30/2012 | 1,646,020 | 887,395 | 54% |
| 6/30/2011 | 1,577,413 | 651,644 | 41% |
| <u>Electric Light Enterprise Fund</u> | | | |
| 12/31/2015 | \$ 236,284 | \$ 288,100 | 122% |
| 12/31/2014 | 228,280 | 175,431 | 77% |
| 12/31/2013 | 202,534 | 247,103 | 122% |
| 12/31/2012 | 196,823 | 151,573 | 77% |
| 12/31/2011 | 142,485 | 145,839 | 102% |
| 12/31/2010 | 148,524 | 239,374 | 161% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Governmental Activities and Water and Ambulance Enterprise Funds

Actuarial Methods:

| | |
|------------------------------------|--|
| Valuation date..... | July 1, 2014 |
| Actuarial cost method..... | Projected Unit Credit |
| Amortization method..... | Level dollar amortization over 30 years at last valuation |
| Remaining amortization period..... | 26 years as of July 1, 2014, closed |
| Asset valuation method..... | Market Value |

Actuarial Assumptions:

| | |
|------------------------------------|----------------------------------|
| Investment rate of return..... | 4.0%, per annum |
| General inflation assumption..... | 2.5%, per annum |
| Health care cost trend rate..... | 6.0% graded to 5.0% over 3 years |
| Annual compensation increases..... | 3.0% |

Plan Membership:

| | |
|--|-------------------|
| Current retirees, beneficiaries, and dependents... | 132 |
| Current active members..... | <u>214</u> |
| Total..... | <u><u>346</u></u> |

Electric Light Enterprise Fund

Actuarial Methods:

| | |
|------------------------------------|--|
| Valuation date..... | January 1, 2014 |
| Actuarial cost method..... | Projected Unit Credit |
| Remaining amortization period..... | 30 years as of January 1, 2014, closed |
| Asset valuation method..... | Market Value |

Actuarial Assumptions:

| | |
|-----------------------------------|----------------------------------|
| Investment rate of return..... | 5.0% per annum |
| Medical/drug cost trend rate..... | 9.0% graded to 5.0% over 6 years |
| Dental..... | 5.0% per year |

Plan Membership:

| | |
|--|------------------|
| Current retirees, beneficiaries, and dependents... | 14 |
| Current active members..... | <u>6</u> |
| Total..... | <u><u>20</u></u> |

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Finance and Advisory Board present an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires majority Town Meeting approval via a supplemental appropriation.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2016 budget includes \$27.4 million in appropriations and other amounts to be raised and \$167,000 in encumbrances and appropriations carried over from previous years. During 2016, Town Meeting approved supplemental appropriations totaling \$392,000.

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

B. Budgetary - GAAP Reconciliation

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

| | |
|--|--------------------|
| Net change in fund balance, budgetary basis..... | \$ 178,071 |
| <u>Perspective difference:</u> | |
| Activity of the stabilization funds recorded in the general fund for GAAP..... | (110,990) |
| <u>Basis of accounting differences:</u> | |
| Net change in revenues due to 60 day receipts..... | 3,484 |
| Net change in recording tax refunds payable..... | 25,045 |
| Recognition of revenue for on-behalf payments..... | 2,437,263 |
| Recognition of expenditures for on-behalf payments..... | <u>(2,437,263)</u> |
| Net change in fund balance, GAAP basis..... | <u>\$ 95,610</u> |

NOTE B – PENSION PLANChanges in Assumptions:

The principal actuarial assumptions used in the January 1, 2014, actuarial valuation are the same as the assumptions used in the previous valuation except for the following change.

The non-economic assumptions were changed from the January 1, 2013 actuarial valuation. The mortality assumptions are based upon the RP-2000 Table (sex-distinct) increased with generational mortality and Scale BB. The previous assumption used an 18 year projection with Scale AA.

The principal actuarial assumptions used in this valuation are the same as the assumptions used in the previous valuation except for the following change. The non-economic assumptions were changed from the January 1, 2013 actuarial valuation. The mortality assumptions are based upon the RP2000 Table (sex-distinct) increased with generational mortality and Scale BB. The previous assumption used an 18 year projection with Scale AA.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS PLAN

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

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0% for the Town and the Water and Ambulance enterprise funds. The Electric Light Enterprise fund has begun the process of prefunding a portion of their liability and as of the actuarial valuation dated 1/1/2014 the funded ratio for the Electric Light Enterprise is 23%. In accordance with Governmental Accounting Standards, the Town (including the Electric Light enterprise fund) has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported. Since the Electric Light enterprise fund is funding its OPEB liability on a different schedule than the Town, their schedules have been presented separately.