

**TOWN OF MIDDLETON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2016

Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended June 30, 2016

# TOWN OF MIDDLETON, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Middleton, 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 Middleton, Massachusetts, (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents (except for the Middleton Electric Light Department "the Light Department" or "MELD", which is as of December 31, 2015).

We did not audit the financial statements of the Light Department, a Town Department reported as an enterprise fund and part of the Town's business-type funds. The Light Department represents 100%, 100% and 100% respectively of the assets, net position, and operating revenues of the Town's business-type activities. The accompanying financial statements do not include all disclosures for the Light Department, as required by generally accepted accounting principles. Such information can be found in separately issued financial statements for the year-ended December 31, 2015, which was audited by the other auditors.

### **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.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2016, (except for the Light Department, which is as of December 31, 2015) and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Restatement**

The Town's basic financial statements for the year ended June 30, 2015, were audited by other auditors for which they issued an unmodified opinion dated February 9, 2016. As discussed in Note IV to the financial statements, the Light Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — An Amendment of GASB Statement No. 27*. In connection with the adoption of this accounting standard, previously reported total net position in the business-type activities in the Statement of Net Position was restated. In addition certain balances in the Nonmajor governmental funds, Capital Projects Major Fund and the Private Purpose Trust Funds were restated which caused the previously reported total net position in the governmental activities to be restated. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the schedule of the Commonwealth's collective share of the Massachusetts Teachers' Retirement System's net pension liability, the funding progress and contribution funding for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Roselli Clark Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 31, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Middleton, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016 (December 31, 2015 for the Light Department). We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

### **Financial Highlights**

- The Town implemented a new pension accounting standard in fiscal year 2016 for its Electric Light Enterprise Fund. As a result, the previously reported net position in the business-type activities was reduced by approximately \$3.3 million to account for the net pension liability at December 31, 2014 (the Light Department's previous fiscal year end).
- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by over \$48.4 million (*total net position*).
- The Town's total net position decreased by approximately \$0.8 million year-over-year, as adjusted. This was the result of a decrease in governmental activities of \$1.9 million primarily from the use of \$1.8 million of reserves to balance the general fund budget, which was offset by a \$1.0 million surplus in Light Department operations.
- The Town's total long-term debt in its governmental activities decreased by nearly \$1.2 million from regular scheduled maturities.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$10.2 million, which was approximately \$1.8 million lower than the prior year. Of the ending fund balance approximately \$3.0 million (8.2% of expenditures) is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

### **Overview of the Financial Statements**

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

**Government-wide Financial Statements** – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and

expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick pay).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*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 of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include the electric light enterprise fund.

**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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable—amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid items) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

**Proprietary Funds** – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for enterprise funds of the electric light activities.

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

**Notes to the 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**

The following table represents the condensed statement of net position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b><u>Assets</u></b>						
Current and other assets	\$ 15,771,512	\$ 15,846,542	\$ 14,888,632	\$ 13,734,492	\$ 30,660,144	\$ 29,581,034
Capital assets, net	56,900,378	57,342,538	9,546,011	9,512,977	66,446,389	66,855,515
<b>Total assets</b>	<b>72,671,890</b>	<b>73,189,080</b>	<b>24,434,643</b>	<b>23,247,469</b>	<b>97,106,533</b>	<b>96,436,549</b>
<b>Deferred outflows of resources</b>	<b>769,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>769,048</b>	<b>-</b>
<b><u>Liabilities</u></b>						
Long-term liabilities	39,060,946	38,256,451	4,042,825	1,096,180	43,103,771	39,352,631
Other liabilities	5,084,366	3,137,677	1,202,251	718,508	6,286,617	3,856,185
<b>Total liabilities</b>	<b>44,145,312</b>	<b>41,394,128</b>	<b>5,245,076</b>	<b>1,814,688</b>	<b>49,390,388</b>	<b>43,208,816</b>
<b>Deferred inflows of resources</b>	<b>32,156</b>	<b>59,215</b>	<b>14,257</b>	<b>-</b>	<b>46,413</b>	<b>59,215</b>
<b><u>Net Position</u></b>						
Net investment in capital assets	40,018,587	40,758,388	9,546,011	9,512,977	49,564,598	50,271,365
Restricted	5,585,113	6,374,739	202,072	202,071	5,787,185	6,576,810
Unrestricted	(16,340,230)	(15,397,390)	9,427,227	11,717,733	(6,913,003)	(3,679,657)
<b>Total Net Position</b>	<b>\$ 29,263,470</b>	<b>\$ 31,735,737</b>	<b>\$ 19,175,310</b>	<b>\$ 21,432,781</b>	<b>\$ 48,438,780</b>	<b>\$ 53,168,518</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$48.4 million (*total net position*), which represents an approximate \$0.8 million decrease from the prior year's balance.

The largest portion (\$49.6 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is



reported net of related debt, 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 significant portion of the Town's total net position (\$5.8 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position* which is currently in a deficit position of approximately \$6.9 million. Surpluses of over \$9.4 million in the business-type activities are offset by a deficit of approximately \$16.3 million in the governmental activities. The business-type surplus may be used to meet the ongoing obligations of the business-type activities. The governmental activities deficit is primarily the result of an \$8.8 million OPEB obligation and \$14.4 million net pension liability at June 30, 2016. The Town expects that its deficit in unrestricted net position will continue to increase for the foreseeable future until a mechanism to more adequately fund its OPEB obligation is in place.

The following table represents the condensed statement of changes in net position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 2,687,432	\$ 2,076,847	\$ 13,535,210	\$ 13,812,948	\$ 16,222,642	\$ 15,889,795
Operating grants and contributions	3,607,006	3,590,815	149,952	-	3,756,958	3,590,815
Capital grants and contributions	680,485	641,964	-	-	680,485	641,964
General revenues:						
Property taxes	24,783,664	23,682,910	-	-	24,783,664	23,682,910
Excise taxes	2,167,028	1,912,969	-	-	2,167,028	1,912,969
Unrestricted investment earnings	46,922	14,876	398,372	730,939	445,294	745,815
Other	917,826	722,430	-	-	917,826	722,430
<b>Total Revenues</b>	<b>34,890,363</b>	<b>32,642,811</b>	<b>14,083,534</b>	<b>14,543,887</b>	<b>48,973,897</b>	<b>47,186,698</b>
<b><u>Expenses</u></b>						
General government	2,404,395	1,985,676	-	-	2,404,395	1,985,676
Public safety	4,634,152	3,909,119	-	-	4,634,152	3,909,119
Education	25,161,574	23,743,443	-	-	25,161,574	23,743,443
Public works	2,551,931	2,566,407	-	-	2,551,931	2,566,407
Health and human services	664,933	551,731	-	-	664,933	551,731
Culture and recreation	1,109,543	960,294	-	-	1,109,543	960,294
Debt service	479,320	534,599	-	-	479,320	534,599
Electric light	-	-	12,813,348	12,545,382	12,813,348	12,545,382
<b>Total Expenses</b>	<b>37,005,848</b>	<b>34,251,269</b>	<b>12,813,348</b>	<b>12,545,382</b>	<b>49,819,196</b>	<b>46,796,651</b>
Change in net position before transfers	(2,115,485)	(1,608,458)	1,270,186	1,998,505	(845,299)	390,047
<b>Transfers</b>	<b>240,000</b>	<b>250,000</b>	<b>(240,000)</b>	<b>(250,000)</b>	<b>-</b>	<b>-</b>
Change in net position	(1,875,485)	(1,358,458)	1,030,186	1,748,505	(845,299)	390,047
Net position, beginning of year, as restated	31,138,955	33,094,195	18,145,124	19,684,276	49,284,079	52,778,471
Net position, end of year	<u>\$ 29,263,470</u>	<u>\$ 31,735,737</u>	<u>\$ 19,175,310</u>	<u>\$ 21,432,781</u>	<u>\$ 48,438,780</u>	<u>\$ 53,168,518</u>

**Governmental Activities** – Total revenues in fiscal year 2016 in the Town’s governmental activities increased over \$2.2 million from fiscal year 2015. This increase was due primarily to an increase in property taxes which were over \$1.1 million greater than the prior year and charges for services were over \$0.6 million greater than the prior year. All other revenue categories experienced minor increases that aggregated to the remaining increase. The greatest revenue areas were property taxes which represented 71.0% of revenues, down slightly from 72.6% in the prior year; and operating grants which represented 10.3% of revenues, down slightly from 11.0% in the prior year. No other revenue sources were greater than 10% of total revenues in fiscal years 2016 or 2015.

Total expenses for the current fiscal year were \$37.0 million verse \$34.3 million in the prior year, primarily the result of a \$1.4 million increase in education expenses from higher assessments and state teacher pension on-behalf payments. Education represents by far the largest expense category for the Town. In fiscal year 2016, education expenses represented approximately 68.0% of total expenses, down slightly from 69.3% in the prior year. The Town continues to fund education expenses above the minimum state requirements. Public safety expenses represented 12.5% of total fiscal year 2016 expense, up from 11.4% in the prior year. No other expense types were greater than 10% of total expenses in fiscal years 2016 and 2015.

**Business-Type Activities** – Operating revenues of the light department decreased approximately \$0.1 million, or less than 0.1%, as there were no rate changes during the year. Investment income decreased from approximately \$0.7 million to \$0.4 million due to favorable investment returns in the prior year. Operating expenses increased approximately \$0.3 million, or 2.1%, primarily due to an increase in infrastructure maintenance expenses.

### **Government Funds Financial Analysis**

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$10.2 million, which is approximately \$1.9 million lower than the prior year. Of the ending fund balance approximately \$3.0 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was over \$4.2 million, while total general fund balance exceeded \$6.6 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 12.6% of total general fund expenditures, while total fund balance represents approximately 19.8% of that same amount.

The Town also maintains a major fund to account for its various capital projects. The Town reported revenue of \$0.4 million from the Commonwealth of Massachusetts, which was offset by approximately \$1.2 million in spending on school roof repairs and \$0.1 million on land improvements.

The Town's aggregate nonmajor funds include the Town's special revenue funds and trust funds. The fund balances in the nonmajor funds increased almost \$0.3 million in fiscal year 2016 to approximately \$4.7 million at June 30, 2016.

**Proprietary Funds** – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the electric light fund was nearly \$19.2 million.

**Fiduciary Fund** – The Town's fiduciary fund is comprised of the Town's OPEB trust and private purpose trust funds. The OPEB trust increased almost \$0.1 million due to continued funding by the Town and the private purpose trust funds were relatively unchanged.

### **General Fund Budgetary Highlights**

Differences between the original operating budget and the final amended operating budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

### **Capital Asset and Debt Administration**

**Capital Assets** – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to approximately \$66.4 million, net of accumulated depreciation. This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment and infrastructure which decreased \$0.4 million over the prior year as depreciation exceeded additions.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

**Long-term Debt** – At June 30, 2016, the Town had total debt outstanding of approximately \$15.4 million, all reported in the governmental activities. Debt decreased approximately \$1.2 million due to regular scheduled maturities.

Moody's Investors Service assigned a bond rating of Aa2 for its general obligation debt.

Additional information on the Town's debt can be found in Note II, Sections E and F of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- The Town's real estate tax base is made up predominantly of residential taxes, which in setting the 2016 tax rate was approximately 83.4% of the entire real estate tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy without a ballot override by the voters.
- Unemployment rates continue to improve, both nationally and at the local level. Rates are currently trending towards or better than pre-recession levels.
- The Town's housing market has stabilized and prices are approaching their early 2000 peaks. This has been fueled by an attractive mortgage market as rates are still at historic lows. The Town is participating in this rebound as real estate sales are exceeding their assessed values and in certain situations their asking prices, however the extent and breadth of this rebound cannot be easily predicted.

- The Town anticipates receiving \$2.3 million in state aid for 2017 and has factored this amount into its tax rate setting process. This is a significant budget source for the Town as a substantial portion of this aid, more commonly referred to as Chapter 70 is used to subsidize the education budget.

The above items were considered when the Town accepted its budget for fiscal year 2017 at the May 2016 Town Meeting.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the CFO/Town Accountant, 48 South Main Street, Middleton, Massachusetts 01949.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 13,903,875	\$ 2,295,148	\$ 16,199,023
Investments	264,240	9,317,377	9,581,617
Receivables, net:			
Property taxes	1,033,657	-	1,033,657
User charges	-	1,386,914	1,386,914
Departmental and other	569,740	24,713	594,453
Unbilled revenue	-	112,417	112,417
Inventory	-	526,424	526,424
Prepaid items	-	1,223,758	1,223,758
Other assets	-	1,881	1,881
Capital assets not being depreciated	5,332,411	327,323	5,659,734
Capital assets, net of accumulated depreciation	51,567,967	9,218,688	60,786,655
<b>Total Assets</b>	<b>72,671,890</b>	<b>24,434,643</b>	<b>97,106,533</b>
<b>Deferred Outflows of Resources</b>			
Deferred pensions	769,048	-	769,048
<b>Total Deferred Outflows of Resources</b>	<b>769,048</b>	<b>-</b>	<b>769,048</b>
<b>Liabilities</b>			
Warrants and accounts payable	993,248	781,000	1,774,248
Accrued payroll and withholdings	856,352	-	856,352
Accrued interest	174,005	-	174,005
Customer deposits	-	180,666	180,666
Other liabilities	40,376	240,585	280,961
Bond anticipation notes payable	2,076,130	-	2,076,130
Noncurrent liabilities:			
Due within one year	944,255	-	944,255
Due in more than one year	39,060,946	4,042,825	43,103,771
<b>Total Liabilities</b>	<b>44,145,312</b>	<b>5,245,076</b>	<b>49,390,388</b>
<b>Deferred Inflows of Resources</b>			
Deferred pensions	32,156	14,257	46,413
<b>Total Deferred Inflows of Resources</b>	<b>32,156</b>	<b>14,257</b>	<b>46,413</b>
<b>Net Position</b>			
Net investment in capital assets	40,018,587	9,546,011	49,564,598
Restricted for:			
Nonexpendable permanent funds	141,428	-	141,428
Expendable permanent funds	121,371	-	121,371
Grants and gifts	444,934	-	444,934
Other specific purposes	4,877,380	202,072	5,079,452
Unrestricted	(16,340,230)	9,427,227	(6,913,003)
<b>Total Net Position</b>	<b>\$ 29,263,470</b>	<b>\$ 19,175,310</b>	<b>\$ 48,438,780</b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,404,395	\$ 414,688	\$ 14,113	\$ -	\$ (1,975,594)		\$ (1,975,594)
Public safety	4,634,152	1,043,799	34,429	-	(3,555,924)		(3,555,924)
Education	25,161,574	613,424	3,321,183	359,213	(20,867,754)		(20,867,754)
Public works	2,551,931	493,806	95,354	266,827	(1,695,944)		(1,695,944)
Health and human services	664,933	83,711	125,725	-	(455,497)		(455,497)
Culture and recreation	1,109,543	26,237	16,202	54,445	(1,012,659)		(1,012,659)
Interest expense	479,320	11,767	-	-	(467,553)		(467,553)
Total governmental activities	37,005,848	2,687,432	3,607,006	680,485	(30,030,925)		(30,030,925)
Business-type activities:							
Electric Light	12,813,348	13,535,210	149,952	-		\$ 871,814	871,814
Total business-type activities	12,813,348	13,535,210	149,952	-		871,814	871,814
Total Primary Government	\$ 49,819,196	\$ 16,222,642	\$ 3,756,958	\$ 680,485	(30,030,925)	871,814	(29,159,111)
<u>General Revenues:</u>							
Property taxes					24,783,664	-	24,783,664
Motor vehicle and other excise					2,167,028	-	2,167,028
Payments in lieu of taxes					143,637	-	143,637
Grants and contributions not restricted to specific programs					523,908	-	523,908
Penalties and interest on taxes					250,281	-	250,281
Unrestricted investment income					46,922	398,372	445,294
<u>Transfers (net)</u>					240,000	(240,000)	-
Total general revenues					28,155,440	158,372	28,313,812
Change in Net Position					(1,875,485)	1,030,186	(845,299)
<u>Net Position:</u>							
Beginning of year, as restated (See Note IV)					31,138,955	18,145,124	49,284,079
End of year					\$ 29,263,470	\$ 19,175,310	\$ 48,438,780

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 8,470,118	\$ 955,805	\$ 4,477,952	\$ 13,903,875
Investments	-	-	264,240	264,240
Receivables, net of allowance for uncollectibles:				
Property taxes	1,030,832	-	2,825	1,033,657
Departmental and other	188,160	-	381,580	569,740
<b>Total Assets</b>	<u>9,689,110</u>	<u>955,805</u>	<u>5,126,597</u>	<u>15,771,512</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 9,689,110</u></u>	<u><u>\$ 955,805</u></u>	<u><u>\$ 5,126,597</u></u>	<u><u>\$ 15,771,512</u></u>
<b>Liabilities</b>				
Warrants and accounts payable	\$ 993,248	\$ -	\$ -	\$ 993,248
Accrued payroll and withholdings	856,352	-	-	856,352
Other liabilities	-	-	40,376	40,376
Bond anticipation notes payable	-	2,076,130	-	2,076,130
<b>Total Liabilities</b>	<u>1,849,600</u>	<u>2,076,130</u>	<u>40,376</u>	<u>3,966,106</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - property taxes	1,030,832	-	2,825	1,033,657
Unavailable revenues - other	188,160	-	381,580	569,740
<b>Total Deferred Inflows of Resources</b>	<u>1,218,992</u>	<u>-</u>	<u>384,405</u>	<u>1,603,397</u>
<b>Fund Balances</b>				
Nonspendable	-	-	141,428	141,428
Restricted	439,348	59,544	4,560,388	5,059,280
Committed	355,986	-	-	355,986
Assigned	1,613,352	-	-	1,613,352
Unassigned	4,211,832	(1,179,869)	-	3,031,963
<b>Total Fund Balances</b>	<u>6,620,518</u>	<u>(1,120,325)</u>	<u>4,701,816</u>	<u>10,202,009</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u><u>\$ 9,689,110</u></u>	<u><u>\$ 955,805</u></u>	<u><u>\$ 5,126,597</u></u>	<u><u>\$ 15,771,512</u></u>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

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

**JUNE 30, 2016**

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<b>Total Governmental Fund Balances</b>	<b>\$ 10,202,009</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	56,900,378
Other long-term assets are unavailable to pay current-period expenditures	1,603,397
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings on pension plan investments	769,048
Changes in proportion and differences between Town contributions and the proportionate share of contributions	<u>(32,156)</u>
Net effect of reporting deferred outflows and inflows of resources	736,892
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.	(174,005)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(15,393,087)
Unamortized premiums on bonds	(417,466)
Landfill closure	(997,500)
Net pension liability	(14,373,910)
Other postemployment benefits	<u>(8,823,238)</u>
Net effect of reporting long-term liabilities	<u>(40,005,201)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 29,263,470</u></u></b>

See accompanying notes to basic financial statements.



**TOWN OF MIDDLETON, MASSACHUSETTS**

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 24,620,116	\$ -	\$ 195,367	\$ 24,815,483
Intergovernmental	3,647,870	359,213	742,173	4,749,256
Motor vehicle and other excises	2,088,715	-	-	2,088,715
Licenses and permits	538,903	-	-	538,903
Penalties and interest on taxes	250,281	-	-	250,281
Payments in lieu of taxes	143,637	-	-	143,637
Fines and forfeitures	19,640	-	-	19,640
Charges for services	-	-	817,875	817,875
Departmental and other revenue	312,622	-	958,224	1,270,846
Investment income	38,878	-	8,044	46,922
Contributions and donations	-	-	62,143	62,143
Total Revenues	31,660,662	359,213	2,783,826	34,803,701
Expenditures:				
Current:				
General government	1,658,152	-	301,897	1,960,049
Public safety	3,947,643	-	55,354	4,002,997
Education	19,954,471	1,163,233	842,552	21,960,256
Public works	1,598,506	-	526,917	2,125,423
Health and human services	447,154	-	76,207	523,361
Culture and recreation	517,538	138,199	147,638	803,375
Pension and employee benefits	3,364,868	-	-	3,364,868
State and county assessments	422,014	-	-	422,014
Debt service:				
Principal	1,058,000	-	133,063	1,191,063
Interest	525,260	-	13,508	538,768
Total Expenditures	33,493,606	1,301,432	2,097,136	36,892,174
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,832,944)	(942,219)	686,690	(2,088,473)
Other Financing Sources (Uses):				
Transfers in	656,000	-	-	656,000
Transfers out	-	-	(416,000)	(416,000)
Total Other Financing Sources (Uses)	656,000	-	(416,000)	240,000
Net Change in Fund Balances	(1,176,944)	(942,219)	270,690	(1,848,473)
FUND BALANCES - Beginning of year, as restated (See Note IV)	7,797,462	(178,106)	4,431,126	12,050,482
FUND BALANCES - End of year	\$ 6,620,518	\$ (1,120,325)	\$ 4,701,816	\$ 10,202,009

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2016**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (1,848,473)**

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. The net amounts are reflected here as reconciling items:

Capital outlays	2,496,536	
Depreciation expense	(2,938,696)	

Net effect of reporting capital assets		(442,160)
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The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Amortization of premiums on bonds and notes payable	47,726	
Repayments of debt	1,191,063	

Net effect of reporting long-term debt		1,238,789
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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 differ between the two statements. The amount presented represents the difference in unavailable revenue.

86,662

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

11,722

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:

Landfill closure	52,500	
Pension benefits	37,605	
Other postemployment benefits	(1,012,130)	

Net effect of reporting long-term liabilities		(922,025)
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**Change in Net Position of Governmental Activities** **\$ (1,875,485)**

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

	Business-Type Activities Electric Light Enterprise (December 31, 2015)
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 2,295,148
Investments	9,317,377
Receivables (net):	
User charges	1,386,914
Departmental and other	24,713
Unbilled revenue	112,417
Inventory	526,424
Prepaid items	1,223,758
Other current assets	1,881
Total current assets	14,888,632
Noncurrent assets:	
Nondepreciable capital assets	327,323
Capital assets (net of depreciation)	9,218,688
Total noncurrent assets	9,546,011
Total Assets	24,434,643
<b>Deferred Outflows of Resources</b>	
	-
<b>Liabilities</b>	
Current liabilities:	
Warrants and accounts payable	781,000
Customer deposits	180,666
Other liabilities	240,585
Total current liabilities	1,202,251
Noncurrent liabilities:	
Compensated absences	71,412
Other postemployment benefits	693,198
Net pension liability	3,278,215
Total noncurrent liabilities	4,042,825
Total Liabilities	5,245,076
<b>Deferred Inflows of Resources</b>	
Deferred pensions	14,257
Total Deferred Inflows of Resources	14,257
<b>Net Position</b>	
Net investment in capital assets	9,546,011
Restricted	202,072
Unrestricted	9,427,227
<b>Total Net Position</b>	<b>\$ 19,175,310</b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

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

**FISCAL YEAR ENDED JUNE 30, 2016**

	Business-Type Activities Electric Light Enterprise (December 31, 2015)
Operating Revenues:	
Charges for services	\$ 13,535,210
Other operating revenues	149,952
Total Operating Revenues	13,685,162
Operating Expenses:	
Purchased power and production	9,872,177
Other operating expenses	2,346,330
Depreciation	594,841
Total Operating Expenses	12,813,348
Operating Income (Loss)	871,814
Nonoperating Revenues (Expenses):	
Investment income	398,372
Total Nonoperating Revenues (Expenses)	398,372
Income (Loss) Before Transfers	1,270,186
Transfers out	(240,000)
Change in Net Position	1,030,186
Total Net Position - Beginning of the Year, as restated (See Note IV)	18,145,124
<b>Total Net Position - End of the Year</b>	<b>\$ 19,175,310</b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2016**

	Business-Type Activities Electric Light Enterprise (December 31, 2015)
Cash Flows from Operating Activities:	
Receipts from customers	\$ 13,969,112
Payments to suppliers	(10,893,212)
Payments to employees	(1,458,401)
Operating transfers out	(240,000)
Net Cash Provided by (Used in) Operating Activities	1,377,499
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(627,875)
Net Cash Used in Capital and Related Financing Activities	(627,875)
Cash Flows from Investing Activities:	
Investment income	398,372
Investment of operating cash, net	(505,499)
Net Cash Provided by (Used in) Investing Activities	(107,127)
Net Change in Cash and Cash Equivalents	642,497
Cash and Cash Equivalents:	
Beginning of the year	1,652,651
End of the year	\$ 2,295,148
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income (Loss)	\$ 871,814
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Operating transfers out	(240,000)
Depreciation	594,841
Changes in assets and liabilities:	
Receivables	115,898
Unbilled revenue	161,697
Inventory	10,885
Prepaid items	(294,624)
Accounts payable	106,238
Customer deposits	6,355
Other liabilities	(16,267)
Other postemployment benefit liability	55,847
Net pension liability	4,815
Net Cash Provided by (Used in) Operating Activities	\$ 1,377,499

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2016**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 789,751	\$ 108,536	\$ 353,362
Investments	-	465,625	-
<b>Total Assets</b>	<u>789,751</u>	<u>574,161</u>	<u>353,362</u>
<b>Liabilities</b>			
Agency liabilities	-	-	353,362
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>353,362</u>
<b>Net Position</b>			
Held in trust for other postemployment benefits	789,751	-	-
Held in trust for private purposes	-	574,161	-
<b>Total Net Position</b>	<u>\$ 789,751</u>	<u>\$ 574,161</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2016**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
	<u>                    </u>	<u>                    </u>
<b>Additions</b>		
Contributions:		
Employer	\$ 100,000	\$ -
Other	<u>-</u>	<u>2,089</u>
Total contributions	<u>100,000</u>	<u>2,089</u>
Investment income:		
Interest and dividends	<u>18,253</u>	<u>(2,535)</u>
<b>Total Additions</b>	<u>118,253</u>	<u>(446)</u>
<b>Deductions</b>		
Education - scholarships	-	2,000
Health and human services	<u>-</u>	<u>20,175</u>
<b>Total Deductions</b>	<u>-</u>	<u>22,175</u>
CHANGE IN NET POSITION	118,253	(22,621)
NET POSITION AT BEGINNING OF YEAR, as restated (see Note IV)	<u>671,498</u>	<u>596,782</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 789,751</u></u>	<u><u>\$ 574,161</u></u>

See accompanying notes to basic financial statements.

# **TOWN OF MIDDLETON, MASSACHUSETTS**

## **NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

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### **I. Summary of Significant Accounting Policies**

The basic financial statements of the Town of Middleton, Massachusetts (the “Town”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

#### **A. Reporting Entity**

The Town is located approximately twenty miles north of Boston. It is bordered by the Towns of North Reading, North Andover, Boxford, Topsfield, Danvers, Peabody and Lynnfield. The Town was settled in 1659 and incorporated as a Town in 1728; and uses the open town meeting form of government. It is governed by a five-member elected Board of Selectmen with an appointed Town Administrator. Members of the Town’s Board of Selectmen serve three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12 and energy services, street maintenance, parks and recreational facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Masconomet Regional School District that provides educational services in grades 7 to 12 to the Towns of Middleton, Topsfield and Boxford. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2016, the Town’s share of the operating and debt service expenses was \$8,966,012. Complete audited financial statements can be obtained directly from the District’s administrative office located at 20 Endicott Road, Topsfield, Massachusetts 01983.

The Town is a member community of the Essex North Shore Agricultural and Technical School District that provides educational services in grades 9 to 12 to many area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2016, the Town’s share of the operating and debt service expenses was \$478,754. Complete audited financial statements can be obtained directly from the District’s administrative office located at 565 Maple Street, Hathorne, Massachusetts 01937.

The Town does not have an equity interest in either of the joint ventures.



## B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten 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
- 2) 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 five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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 a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of

the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

*General Fund* – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

*Capital Projects Fund* – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

*Special Revenue Funds* – are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

*Permanent Funds* – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

*Electric Light Enterprise Fund* – accounts for user charges collected to finance costs associated with providing electric power to the Town’s residents and businesses.

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

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations.

Private-Purpose Trust Fund – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used primarily for public assistance and scholarships.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details and developer deposits. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity**

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the Town are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The Light Department’s prepaid items represent a deposit used to facilitate timely payments of certain monthly power invoices.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	7 to 40 years
Land improvements	20 to 30 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 100 years

*Interfund Balances* – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

*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 in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business –type activities are reported in the statement of activities as *transfers, net*.

*Investment Income* – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the permanent funds and proprietary funds is retained in the funds.

*Compensated Absences* – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured. For governmental activities, the liability for compensated absences is not material and is therefore not reported in these financial statements.

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

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of financial 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 only has one type of item that qualifies for reporting as a deferred outflow reported on the government-wide statement of net position that relates to outflows from changes in the net pension liability. These outflows will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items which qualify for reporting in this category. The first arises under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of item that qualifies for reporting as a deferred outflow is reported on the government-wide statement of net position. This relates to outflows from changes in the net pension liability which will be recognized in pension expense in future years as more fully described in Note III, subsection A.

*Net Position* – In the government-wide financial statements, 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 related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted for* the following:

*Nonexpendable permanent funds* represent the endowment portion of donor restricted trusts that support governmental programs.

*Expendable permanent funds* represent the spendable portion of donor restricted trusts that support governmental programs.

*Grants and gifts* represent assets that have restrictions placed on them from federal and state granting agencies, donors and other outside parties for specific governmental programs and uses.

*Other specific purposes* represent assets that are restricted by third parties for specific governmental programs and uses.

*Fund Equity* – The Town presents its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

*Nonspendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact as the corpus of the endowment.

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

*Encumbrances* – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$384,393 of encumbrances from normal purchasing activity in the general fund as assigned and \$355,986 of encumbrances from Town Meeting Articles in the general fund as committed. There are no encumbrances reported in any other fund.

*Stabilization Funds* – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. At June 30, 2016, the Town reported a balance in its stabilization fund of \$1,779,386, which is reported as unassigned in the general fund.

The following table reflects the Town's fund equity categorizations:

	General	Capital Projects	Nonmajor Governmental	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 141,428	\$ 141,428
Restricted:				
School revolving	-	-	612,925	612,925
Federal and state grants	-	-	368,054	368,054
Ambulance services	-	-	840,501	840,501
Gift funds	-	-	76,880	76,880
Septic betterments	-	-	77,196	77,196
Cable access programming	-	-	512,247	512,247
Water services	-	-	942,961	942,961
Community preservation	-	-	589,549	589,549
Other capital outlay	-	59,544	-	59,544
Cemetery trust funds	-	-	43,222	43,222
Other trust funds	-	-	78,149	78,149
Debt service	439,348	-	-	439,348
Other purposes	-	-	418,704	418,704
Committed:				
Police	118,638	-	-	118,638
Public works	185,522	-	-	185,522
Other purposes	51,826	-	-	51,826
Assigned:				
Purchase orders	384,393	-	-	384,393
Subsequent years' budget	1,228,959	-	-	1,228,959
Unassigned	4,211,832	(1,179,869)	-	3,031,963
	<u>\$ 6,620,518</u>	<u>\$ (1,120,325)</u>	<u>\$ 4,701,816</u>	<u>\$ 10,202,009</u>

#### **E. Excess of Expenditures Over Appropriations and Fund Deficits**

The Town incurred deficits totaling \$1,179,869 in its Capital Projects Major Fund. These deficits will be funded from grants and debt proceeds in future fiscal years.

#### **F. Use of Estimates**

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 fiscal year. Actual results could vary from estimates that were used.

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool (the "Pool"). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust, or MMDT, which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

*Custodial Credit Risk: Deposits* - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2016, the Town, excluding the Light Department, had bank deposits totaling \$8,626,220 with a carrying value of \$8,661,605. Of the bank balance, \$4,275,074 were not insured by the Federal Deposit Insurance Corporation ("FDIC"), the depositors' insurance fund or collateralization agreements and was therefore exposed to custodial credit risk.

At December 31, 2015, the Light Department had bank deposits totaling \$2,270,468. These are held by the Town Treasurer and are pooled with other Town deposits accordingly it is not possible to determine the level of insurance and collateralization related specifically to these deposits.

*Custodial Credit Risk: Investments* – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town or Light Department may not be able to recover the full amount of its principal investment and/or investment earnings. The Town's investment in the MMDT and PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town's investments in United States governmental obligations, bond and equity mutual funds and other investment funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town's investments in negotiable certificates of deposit are fully insured by the FDIC. The Town's investment in a repurchase agreement is held by a counterparty, but not in the Town's name. The repurchase agreement is fully collateralized with U.S. government securities.

The Light Department's investments in equities totaling \$3,193,237 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.



***Fair Value of Investments*** – The Town reports its investments at fair value. The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability.

The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2016:

		Fair Value Measurements Using		
	6/30/16	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. government obligations	\$ 70,480	\$ 70,480	\$ -	\$ -
Negotiable certificates of deposit	242,529	-	242,529	-
Bond mutual funds	58,883	58,883	-	-
Repurchase agreements	3,646,212	-	3,646,212	-
State treasurer's PRIT fund	789,751	-	789,751	-
State investment pool (MMDT)	2,057,956	-	2,057,956	-
Total debt securities	6,865,811	129,363	6,736,448	-
Equity securities:				
Equity mutual funds	278,539	278,539	-	-
Other investment funds	79,434	-	79,434	-
Total equity securities	357,973	278,539	79,434	-
Total investments by fair value level	\$ 7,223,784	\$ 407,902	\$ 6,815,882	\$ -

U.S government obligations, bond mutual funds and equity mutual funds are classified in Level 1 and are valued using prices quoted in active markets for those securities, while the remaining investments are classified in Level 2. Negotiable certificates of deposit and repurchase agreements are valued using matrix pricing based on the securities’ relationship to benchmark quoted prices. Other investment mutual funds are valued based on the published fair value per share (unit) for each fund. The State Treasurer’s PRIT fund and the State investment pool (MMDT) are valued based on the composition and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

**Interest Rate Risk: Deposits** – This is the risk that fair value losses may arise due to increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

**Interest Rate Risk: Investments** – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2016, the Town had the following investments with maturities:

<b>Investments</b>	<b>6/30/16</b>	<b>Maturities in Years</b>		
		<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>
U.S. government obligations	\$ 70,480	\$ 52,860	\$ 17,620	\$ -
Negotiable certificates of deposit	242,529	-	242,529	-
Repurchase agreements	3,646,212	3,646,212	-	-
State treasurer's PRIT fund	789,751	789,751	-	-
State investment pool (MMDT)	2,057,956	2,057,956	-	-
Total investments with maturities	<u>\$ 6,806,928</u>	<u>\$ 6,546,779</u>	<u>\$ 260,149</u>	<u>\$ -</u>

The Light Department had investments in U.S. government Securities totaling \$1,890,963 maturing beyond five years; certificates of deposit with \$79,970 maturing less than one year, \$40,140 between one and two years, \$316,012 between two and five years and \$1,237,426 beyond five years; municipal bonds with \$2,243,622 maturing beyond five years; and corporate bonds with \$228,014 between two and five years and \$87,992 beyond five years.

**Concentration of Credit Risk** – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2016, Town has 50% of its investments in repurchase agreements collateralized with U. S. government backed securities, 28% in the MMDT and 10% in the PRIT fund.

**Credit Risk** – The Town has not adopted a formal policy related to credit risk. The Town's investments in U.S. government obligations are rated Aaa by Moody's and the remaining investments are unrated.

The Light Department's U.S. government securities are rated Aaa by Moody's and AA+ by Standards and Poor's. All municipal bonds are rated as AA to A by Standards and Poor's. Corporate bonds of \$87,992 are rated AA to A and \$228,014 are rated BBB by Standards and Poor's. The remaining Light Department investments are not rated.

**B. Receivables**

Receivables as of June 30, 2016 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 315,775	\$ -	\$ 315,775
Tax liens and deferrals	310,849	-	310,849
Tax foreclosures	404,208	-	404,208
Community preservation surcharges	2,825	-	2,825
Motor vehicle and other excise taxes	179,347	-	179,347
Ambulance fees	572,193	(228,877)	343,316
Other	47,077	-	47,077
Total	<u>\$ 1,832,274</u>	<u>\$ (228,877)</u>	<u>\$ 1,603,397</u>

Receivables at year-end for the Town's Electric Light Department Enterprise Fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Customer accounts receivable	\$ 1,412,625	\$ (25,711)	\$ 1,386,914
Other accounts receivable	7,635	-	7,635
Purchased power credits receivable	17,078	-	17,078
Total	<u>\$ 1,437,338</u>	<u>\$ (25,711)</u>	<u>\$ 1,411,627</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental	Total
Receivable type:			
Real estate and personal property taxes	\$ 315,775	\$ -	\$ 315,775
Tax liens and deferrals	310,849	-	310,849
Tax foreclosures	404,208	-	404,208
Motor vehicle and other excise taxes	179,347	-	179,347
Community preservation surcharges	-	2,825	2,825
Ambulance fees	-	343,316	343,316
Other	8,813	38,264	47,077
Total	<u>\$ 1,218,992</u>	<u>\$ 384,405</u>	<u>\$ 1,603,397</u>

## C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 (December 31, 2015 for Electric Light Department) was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 5,041,208	\$ -	\$ -	\$ 5,041,208
Construction in process	355,649	32,411	(96,857)	291,203
Total capital assets not being depreciated	5,396,857	32,411	(96,857)	5,332,411
Capital assets being depreciated:				
Land improvements	1,841,082	-	-	1,841,082
Buildings and improvements	43,099,266	1,186,934	-	44,286,200
Machinery and equipment	9,498,198	1,034,064	(44,080)	10,488,182
Infrastructure	28,774,141	339,984	-	29,114,125
Total capital assets being depreciated	83,212,687	2,560,982	(44,080)	85,729,589
Less accumulated depreciation for:				
Land improvements	(887,098)	(51,734)	-	(938,832)
Buildings and improvements	(10,066,200)	(1,764,189)	-	(11,830,389)
Machinery and equipment	(7,438,919)	(472,473)	44,080	(7,867,312)
Infrastructure	(12,874,789)	(650,300)	-	(13,525,089)
Total accumulated depreciation	(31,267,006)	(2,938,696)	44,080	(34,161,622)
Total capital assets being depreciated, net	51,945,681	(377,714)	-	51,567,967
Total governmental activities capital assets, net	<u>\$ 57,342,538</u>	<u>\$ (345,303)</u>	<u>\$ (96,857)</u>	<u>\$ 56,900,378</u>
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 327,323	\$ -	\$ -	\$ 327,323
Capital assets being depreciated:				
Buildings and improvements	1,249,918	14,956	-	1,264,874
Machinery and equipment	2,346,240	89,847	(2,000)	2,434,087
Infrastructure	16,163,810	525,568	(75,000)	16,614,378
Total capital assets being depreciated	19,759,968	630,371	(77,000)	20,313,339
Less accumulated depreciation for:				
Buildings and improvements	(529,622)	(25,297)	-	(554,919)
Machinery and equipment	(1,691,025)	(97,158)	2,000	(1,786,183)
Infrastructure	(8,353,663)	(472,386)	72,500	(8,753,549)
Total accumulated depreciation	(10,574,310)	(594,841)	74,500	(11,094,651)
Total capital assets being depreciated, net	9,185,658	35,530	(2,500)	9,218,688
Total business-type activities capital assets, net	<u>\$ 9,512,981</u>	<u>\$ 35,530</u>	<u>\$ (2,500)</u>	<u>\$ 9,546,011</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General government	\$ 72,418	Electric Light	\$ 594,841
Public safety	237,669		<u>\$ 594,841</u>
Education	1,572,909		
Public works	830,829		
Health and human services	4,031		
Culture and recreation	220,840		
	<u>\$ 2,938,696</u>		

#### **D. Interfund Receivables, Payables and Transfers**

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

	<u>Transfers In</u>	
<u>Transfers Out</u>	General	
	Fund	
Nonmajor Governmental Funds	\$ 416,000	(1)
Electric Light Enterprise Fund	240,000	(1)
Total	<u>\$ 656,000</u>	

(1) Transfers to general fund to supplement operating budgets.

#### **E. Temporary Debt**

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

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes (“GANS”). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and generally carry maturity dates of less than one year and are interest bearing and will be paid through future issuance of general obligation bonds.

The Town's temporary borrowing activity for fiscal year 2016 was as follows:

Type	Interest Rate	Maturity Date	July 1, 2015	Additions	Retirements	June 30, 2016
BAN	0.45%	Matured	\$ 450,000	\$ -	\$ (450,000)	\$ -
BAN	0.70%	09/16/16	-	1,626,130	-	1,626,130
BAN	0.70%	09/16/16	-	450,000	-	450,000
Total Notes Payable			<u>\$ 450,000</u>	<u>\$ 2,076,130</u>	<u>\$ (450,000)</u>	<u>\$ 2,076,130</u>

The Town issued these short-term notes to finance school roof repairs and land acquisition.

#### F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations related to personnel costs.

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

The following table reflects the activity in the Town's long-term liability accounts during the fiscal year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 16,584,150	\$ -	\$ (1,191,063)	\$ 15,393,087	\$ 846,063
Unamortized bond premium	465,192	-	(47,726)	417,466	45,692
Landfill closure	1,050,000	-	(52,500)	997,500	52,500
Net pension liability	13,615,408	2,133,119	(1,374,617)	14,373,910	-
Other postemployment benefits	7,811,108	1,387,466	(375,336)	8,823,238	-
<b>Total Governmental Activities</b>	<u>\$ 39,525,858</u>	<u>\$ 3,520,585</u>	<u>\$ (3,041,242)</u>	<u>\$ 40,005,201</u>	<u>\$ 944,255</u>
<i>Business-Type Activities - Electric:</i>					
Compensated absences	\$ 170,907	\$ -	\$ (99,495)	\$ 71,412	\$ -
Net pension liability *	3,287,657	268,900	(278,342)	3,278,215	-
Other postemployment benefits	637,351	86,836	(30,989)	693,198	-
<b>Total Business-Type Activities</b>	<u>\$ 4,095,915</u>	<u>\$ 355,736</u>	<u>\$ (408,826)</u>	<u>\$ 4,042,825</u>	<u>\$ -</u>

\* As restated per GASB #68.

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the Electric Light Department Enterprise Fund.

The following is a summary of outstanding long-term debt obligations as of June 30, 2016:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.30 - 5.00%	\$ 16,455,000	\$ -	\$ (1,175,000)	\$ 15,280,000
Federal Home Loan Bonds	5.00%	73,800	-	(9,800)	64,000
Massachusetts Clean Water Trust Notes	3.00 - 5.25%	55,350	-	(6,263)	49,087
<b>Total Governmental Activities</b>		16,584,150	-	(1,191,063)	15,393,087
Add: Unamortized bond premium		465,192	-	(47,726)	417,466
<b>Total Governmental Activities, net</b>		<u>\$ 17,049,342</u>	<u>\$ -</u>	<u>\$ (1,238,789)</u>	<u>\$ 15,810,553</u>

Payments on general long-term debt obligation bonds due in future years consist of the following:

Year Ending June 30,	<i>Governmental Activities</i>		
	Principal Balance	Interest Balance	Total
2017	\$ 846,063	\$ 500,188	\$ 1,346,251
2018	866,063	469,435	1,335,498
2019	881,063	438,156	1,319,219
2020	896,063	409,713	1,305,776
2021	921,063	377,307	1,298,370
2022 - 2026	4,820,772	1,345,870	6,166,642
2027 - 2031	6,162,000	653,035	6,815,035
Total	<u>\$ 15,393,087</u>	<u>\$ 4,193,704</u>	<u>\$ 19,586,791</u>

The Town is scheduled to receive \$6,521 from the Massachusetts Clean Water Trust (MCWT) to subsidize the above interest costs.

The following table summarizes authorized but unissued debt at June 30, 2016:

Project	Amount
<i>Governmental:</i>	
School building improvements	\$ 4,266,549
Library construction	956,061
Septic loans	84,969
Water projects	50,000
Total Authorized and Unissued	<u>\$ 5,357,579</u>

### **III. Other Information**

#### **A. Retirement System**

Pension Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan for the Town and other member units deemed eligible by the Essex Regional Retirement Board. The System was established under Chapter 32 of Massachusetts General Laws. Stand-alone financial statements for the year ended December 31, 2015 were issued and are available at the Retirement Office, 491 Maple Street, #202, Danvers, Massachusetts 01923.

Current membership in the System for all employers as of January 1, 2014 was as follows:

Active and inactive employees	3,787
Retirees and beneficiaries currently receiving benefits	<u>1,729</u>
	<u>5,516</u>

Benefit Terms – Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the System do not participate in the Federal Social Security Retirement System.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.



Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the System.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,355,445 to the System in fiscal year 2016. This approximated the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 22.1% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$17,652,125 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2015. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 4.927% at December 31, 2015, which was consistent with the proportion measured at January 1, 2014.

The amount of net pension liability calculated in the actuarial valuation was \$17,900,262 however the Light Department lags one year due its fiscal year being a December 31 year-end. The difference in net pension liability is directly related to this lag.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements.

The System's fiduciary net position was determined using the accrual basis of accounting. The System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$1,319,719 in pension expense in the statement of activities in fiscal year 2016; \$268,900 of this amount was incurred by the Light Department.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 769,048	\$ 14,257
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	32,156
Total	<u>\$ 769,048</u>	<u>\$ 46,413</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

<u>Year ended June 30,</u>	
2017	\$ 177,402
2018	177,402
2019	177,402
2020	191,957
2021	(1,528)
Total	<u>\$ 722,635</u>

Actuarial Valuation – The measurement of the System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry age normal
Amortization method:	Approximate level percent of payroll (closed)
Remaining amortization period:	20 years for the fresh start base
Asset valuation method:	Market value of assets adjusted for receivables and payables
Investment rate of return:	8.0% per annum
Projected salary increases:	7.5% year one, 6.5% year two, 6.0% year three, 5.5% year four, 5.0% year five, 3.75% ultimate rate
Cost of living adjustments:	3% on the first \$13,000 of benefits
Mortality rates:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality
Disabled life mortality:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time

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. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Bonds	13.0%	0.97%
Value-Added Bonds	10.0%	3.80%
Large Cap Equities	14.5%	4.61%
Mid/Small Cap Equities	3.5%	4.85%
International Equities	16.0%	5.10%
Emerging Market Equities	6.0%	6.31%
Private Equity	10.0%	6.55%
Real Estate	10.0%	3.40%
Timber/Natural Resources	4.0%	3.64%
Hedge Funds	9.0%	3.64%
Cash/Portfolio Completion	4.0%	0.00%
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System’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 Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8.00% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate (dollar amounts are in thousands):

	1% Decrease (7.00%)	Current Discount (8.00%)	1% Increase (9.00%)
Town’s proportionate share of the net pension liability	\$ 21,682	\$ 17,652	\$ 14,537

## B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the Town’s school department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established

under Chapter 32 of Massachusetts General Laws. The Commonwealth's legislature has the authority to amend or modify the MTRS's funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of 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*.

For the year ended June 30, 2016, the Commonwealth contributed \$901,855 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.088250%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following (dollar amounts are in thousands):

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 18,082	\$ (18,082)	\$ —
Pension expense	1,467	(1,467)	—

The Town recognized \$1,466,623 in intergovernmental revenue and pension expense relative to this arrangement.

### C. 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 amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

### D. Other Postemployment Benefits ("OPEB")

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 231 active employees and 75 retired employees and spouses for a total of 306.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute forty percent of the calculated contribution and the remainder of the benefit cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

**Annual OPEB Cost and Net OPEB Obligation** – The Town’s annual OPEB cost is calculated based on the annual required contribution (“ARC”) of the employer, which is an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the Town’s OPEB obligation:

Annual required contribution (ARC)	\$ 1,386,183
Interest on net OPEB obligation	337,938
Adjustment to ARC	<u>(249,819)</u>
Annual OPEB cost	1,474,302
Contributions made	<u>\$ (406,325)</u>
Increase in net OPEB obligation	1,067,977
Net OPEB obligation at beginning of year	<u>8,448,459</u>
Net OPEB obligation at end of year	<u><u>\$ 9,516,436</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2016	\$ 1,474,302	28%	\$ 9,516,436
June 30, 2015	1,414,127	70%	8,448,459
June 30, 2014	1,536,746	28%	8,027,444

The fiscal year 2016 AOPEBC was charged to the following functional programs: general government \$104,607; public safety \$291,286; education \$824,677; public works \$83,306; health and human services \$32,020; culture and recreation \$51,570 and electric light \$86,836.

**Funding Status and Funding Progress** – The funded status of the Plan at June 30, 2016 for the most recent actuarial valuation performed as of July 1, 2014, was as follows:

Actuarial value of plan assets	\$ -
Actuarial accrued liability (“AAL”)	13,216,570
Unfunded actuarial accrued liability (“UAAL”)	13,216,570
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annually payroll of active employees covered by the plan)	11,367,278
UAAL as a percentage of covered payroll	116%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

Methods and Assumptions – 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 the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation dated July 1, 2014 are as follows:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period:	23 years as of June 30, 2015
Interest discount rate:	4.0%
Healthcare/Medical cost trend rate:	5.0%

#### **E. Commitments and Contingencies**

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2016, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2016.

Grant Compliance – Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

#### Electric Light Department -

The Electric Light Department (MELD) is a Town owned utility responsible for the purchase and distribution of electric power throughout the Town of Middleton. MELD has its own Board of Commissioners elected at large by citizenry of the Town of Middleton.

MELD is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop bulk power supply for its Members and other utilities.

MMWEC is authorized to construct, own or purchase ownership interest 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, PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt services 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 project capability to an additional amount not to exceed 25% of their original participants' 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 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 Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in W.F. Wyman Unit No. 4 plant, which is owned and operated by subsidiaries of FPL Energy Wyman IV, LLC, an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, 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 Millstone Unit 2 nuclear unit. The operating license for Unit 3 extends to November, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook Resources, LLC (formerly FPL Energy Seabrook, LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has stated its intention to request an extension of the Seabrook Station operating license for an additional twenty 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. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson-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 Price-Anderson Act until the end of 2025.

MELD has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and the PPAs, the Plant is required to make certain payments to MMWEC payable solely from Plant revenues. Under the PSAs each Participant is unconditionally obligated to make all 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, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

As of December 31, 2015, total capital expenditures for MMWEC's projects amounted to \$1,626,959,000, of which \$39,461,000 represents the amount associated with the Plant's Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue

bonds \$112,510,000, of which \$3,163,000 is associated with the Plant's share of Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$121,353,000, of which \$3,430,000 is anticipated to be billed to the Plant in future years.

The estimated aggregate amount of the Plant's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2015 and estimated for future years is summarized as follows:

For years ended December 31,

2016	\$ 1,564,000
2017	1,518,000
2018	40,000
2019	307,000
Total	<u>\$ 3,429,000</u>

In addition, the Plant is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Plant's total O&M costs including debt service under the PSAs were \$3,478,000 and \$3,463,000 for the years ended December 31, 2015 and 2014, respectively.

The MELD purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the MELD anticipates some stability to its power cost expenses over the next few years.

#### **F. Landfill Closure and Post-Closure Care Costs**

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In addition, the Town acquired a parcel of land in fiscal year 2009 that was formerly used as a landfill and is responsible for post-closure testing and monitoring. Finally, the Town acquired another parcel of land that was formerly used as the Town landfill and is also responsible for the post-closure testing and monitoring of the site.

In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring and other post-closure liabilities for these three parcels, \$997,500, has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### **G. Implementation of New GASB Pronouncements**

##### *Current Year Implementations*

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental*



*Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Electric Light Department in fiscal year 2016 and had a material effect on its financial statements. The Town, exclusive of the Electric Light Department, implemented the provisions of GASB 68 in fiscal year 2015.

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 was to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement established requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB 79 established criteria for which an external investment pool may qualify to measure its investment value at amortized cost versus fair value. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

#### *Future Year Implementations*

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the

usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification

of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

#### IV. Restatement

In fiscal year 2016, the Town adopted GASB 68 in its Electric Light Enterprise Fund and also made corrections to prior year balances. As a result of the adoption of this accounting standard, and the corrections to prior year balances the total net positions and fund balances were restated as follows:

	Governmental Activities	Business-type Activities	Electric Light
Prior year as presented	\$ 31,735,737	\$ 21,432,781	\$ 21,432,781
Reclassify private purpose trusts	(596,782)	-	-
Record net pension liability	-	(3,287,657)	(3,287,657)
As restated	<u>\$ 31,138,955</u>	<u>\$ 18,145,124</u>	<u>\$ 18,145,124</u>

  

	Capital Projects	Nonmajor Governmental	Private Purpose Trusts
Prior year as presented	\$ -	\$ 4,849,802	\$ -
Reclassify capital projects	(178,106)	178,106	-
Reclassify private purpose trusts	-	(596,782)	596,782
As restated	<u>\$ (178,106)</u>	<u>\$ 4,431,126</u>	<u>\$ 596,782</u>

**TOWN OF MIDDLETON, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2016**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY***(dollar amounts are in thousands)*

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	4.93%	4.91%
Town's proportionate share of the net pension liability (asset)	* \$ 17,900	\$ 16,641
Town's covered-employee payroll	\$ 6,129	\$ 6,045
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	292.1%	275.3%
Plan fiduciary net position as a percentage of the total pension liability	51.0%	47.9%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN***(dollar amounts are in thousands)*

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,353	\$ 1,258
Contributions in relation to the actuarially determined contribution	<u>1,355</u>	<u>1,258</u>
Contribution deficiency (excess)	<u>\$ (2)</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 6,129	\$ 6,045
Contributions as a percentage of covered-employee payroll	22.1%	20.8%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

\* The net pension liability as reported in the basic financial statements differs from this schedule due to the Light Department implementing GASB #68 one year later than the Town.

See accompanying independent auditor's report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2016**

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**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY**  
**MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM**

*(dollar amounts are in thousands)*

	Year Ended June 30,	
	2015	2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$20,489,643	\$15,896,354
Commonwealth's actuarially determined contribution	\$ 1,021,930	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB  
YEAR ENDED JUNE 30, 2016**

**SCHEDULE OF FUNDING PROGRESS**

**Other Postemployment Benefits**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>((b-a)/c)</i>
7/1/2014	\$ -	\$13,216,570	\$13,216,570	0.00%	\$11,367,278	116.3%
7/1/2012	-	13,926,650	13,926,650	0.00%	10,264,357	135.7%

**SCHEDULE OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

<b>Year Ended June 30,</b>	<b>Annual OPEB Cost</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2016	\$ 1,474,302	\$ 406,325	28%
2015	1,414,127	993,112	70%
2014	1,536,746	430,000	28%
2013	1,467,050	396,000	27%

N/A - Information not currently available.

See accompanying independent auditors' report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance
	Original	Final	Budgetary	and continuing	Budgetary	Positive
	Budget	Budget	Amounts	appropriations	Adjusted	(Negative)
<b>REVENUES</b>						
Real estate and personal property taxes, net	\$ 24,391,920	\$ 24,391,920	\$ 24,742,632		\$ 24,742,632	\$ 350,712
Intergovernmental	2,200,111	2,200,111	2,181,247		2,181,247	(18,864)
Motor vehicle and other excises	1,718,400	1,718,400	2,088,715		2,088,715	370,315
Payments in lieu of taxes	128,500	128,500	143,637		143,637	15,137
License and permits	449,000	449,000	538,903		538,903	89,903
Departmental and other revenue	281,500	281,500	312,622		312,622	31,122
Penalties and interest on taxes	111,000	111,000	250,281		250,281	139,281
Fines and forfeitures	21,000	21,000	19,640		19,640	(1,360)
Investment income	25,300	25,300	34,555		34,555	9,255
Total Revenues	29,326,731	29,326,731	30,312,232	\$ -	30,312,232	985,501
<b>EXPENDITURES</b>						
General government	1,864,848	1,820,848	1,658,152	46,711	1,704,863	115,985
Public safety	4,312,057	4,327,057	3,947,643	330,828	4,278,471	48,586
Education	20,078,469	20,484,253	19,978,597	491,284	20,469,881	14,372
Public works	1,898,927	1,898,927	1,598,506	185,596	1,784,102	114,825
Health and human services	425,917	460,917	447,154	89	447,243	13,674
Culture and recreation	529,670	531,170	517,538	606	518,144	13,026
Fringe Benefits	1,964,361	1,964,361	1,898,245	-	1,898,245	66,116
State and county tax assessments	420,875	420,875	422,014	-	422,014	(1,139)
Debt service	1,583,260	1,583,260	1,583,260	-	1,583,260	-
Total Expenditures	33,078,384	33,491,668	32,051,109	1,055,114	33,106,223	385,445
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	663,000	663,000	656,000	-	656,000	(7,000)
Transfers out	(50,000)	(50,000)	(50,000)	-	(50,000)	-
Total Other Financing Sources (Uses)	613,000	613,000	606,000	-	606,000	(7,000)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE</b>						
	(3,138,653)	(3,551,937)	\$ (1,132,877)	\$ (1,055,114)	\$ (2,187,991)	\$ 593,056
<b>Other Budgetary Items:</b>						
Undesignated surplus (free cash)	1,197,000	1,610,284				
Overlay surplus	188,700	188,700				
Prior year encumbrances	1,752,953	1,752,953				
<b>Net Budget</b>	<b>\$ -</b>	<b>\$ -</b>				

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

# TOWN OF MIDDLETON, MASSACHUSETTS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

### I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by the Town Meeting at the Town's annual meeting in May. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each department. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2016, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 30,312,232
Stabilization revenue	\$ -	\$ 4,323	4,323
Change in accruing tax revenues	(122,516)	-	(122,516)
On behalf payments	1,466,623	-	1,466,623
Revenues on a GAAP basis	<u>\$ 1,344,107</u>	<u>\$ 4,323</u>	<u>\$ 31,660,662</u>
Expenditures on a budgetary basis			\$ 32,051,109
Change in expenditure recognition	\$ (24,126)	\$ -	(24,126)
On behalf payments	1,466,623	-	1,466,623
Expenditures on a GAAP basis	<u>\$ 1,442,497</u>	<u>\$ -</u>	<u>\$ 33,493,606</u>
Other financing sources (uses) on a budgetary basis			\$ 606,000
Stabilization transfers	\$ -	\$ 50,000	50,000
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 656,000</u>





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Members of the Board of Selectmen  
Town of Middleton, Massachusetts

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements (except for the Middleton Electric Light Department "the Light Department", which is as of December 31, 2015) and have issued our report thereon January 31, 2017.

We did not audit the financial statements of the Light Department, a Town Department reported as an enterprise fund and part of the Town's business-type funds. The Light Department represents 100%, 100% and 100% respectively of the assets, net position, and operating revenues of the Town's business-type activities. The accompanying financial statements do not include all disclosures for the Light Department, as required by generally accepted accounting principles. Such information can be found in separately issued financial statements for the year-ended December 31, 2015, which was audited by the other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 31, 2017