

TOWN OF NORWOOD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

Town of Norwood, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Norwood, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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 Norwood, Massachusetts, as of and for the year ended June 30, 2016, (except for the Town of Norwood, Massachusetts' Contributory Retirement System which is as of and for the year ended December 31, 2015) and the related notes to the financial statements, which collectively comprise the Town of Norwood, Massachusetts' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assess-

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

December 13, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric operations, which is considered to be a major fund.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$34,364,742 (i.e., net position), a change of \$(1,489,797) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,095,461, a change of \$(5,869,534) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,204,008, which includes a stabilization balance of \$3,589,565, which in total changed by \$2,174,189 in comparison to the prior year unassigned fund balance.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$113,622,729, a change of \$(8,648,907) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 26,802	\$ 31,546	\$ 28,426	\$ 25,249	\$ 55,228	\$ 56,795
Capital assets	164,235	162,246	39,925	36,573	204,160	198,819
Deferred outflows	<u>10,916</u>	<u>2,910</u>	<u>514</u>	<u>137</u>	<u>11,430</u>	<u>3,047</u>
Total assets and deferred outflows	201,953	196,702	68,865	61,959	270,818	258,661
Long-term liabilities outstanding	129,243	119,780	57,924	64,302	187,167	184,082
Other liabilities	26,314	24,279	22,858	14,445	49,172	38,724
Deferred inflows	<u>109</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>114</u>	<u>-</u>
Total liabilities and deferred inflows	155,666	144,059	80,787	78,747	236,453	222,806
Net position:						
Net investment in capital assets	99,164	100,184	20,910	19,657	120,074	119,841
Restricted	3,656	3,470	-	-	3,656	3,470
Unrestricted	<u>(56,533)</u>	<u>(51,011)</u>	<u>(32,832)</u>	<u>(36,445)</u>	<u>(89,365)</u>	<u>(87,456)</u>
Total net position	<u>\$ 46,287</u>	<u>\$ 52,643</u>	<u>\$ (11,922)</u>	<u>\$ (16,788)</u>	<u>\$ 34,365</u>	<u>\$ 35,855</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 29,152	\$ 27,684	\$ 50,235	\$ 48,816	\$ 79,387	\$ 76,500
Operating grants and contributions	18,844	16,117	-	-	18,844	16,117
Capital grants and contributions	890	1,659	-	-	890	1,659
General revenues:						
Property taxes	66,033	64,255	-	-	66,033	64,255
Excises	4,485	4,210	-	-	4,485	4,210
Penalties and interest on taxes	2,498	2,297	-	-	2,498	2,297
Grants and contributions not restricted to specific programs	4,202	4,612	-	-	4,202	4,612
Investment income	188	110	88	(52)	276	58
Other	456	425	201	739	657	1,164
Total revenues	<u>126,748</u>	<u>121,369</u>	<u>50,524</u>	<u>49,503</u>	<u>177,272</u>	<u>170,872</u>
Expenses:						
General government	12,877	7,301	-	-	12,877	7,301
Public safety	17,300	14,680	-	-	17,300	14,680
Education	60,304	54,137	-	-	60,304	54,137
Public works	9,723	12,124	-	-	9,723	12,124
Water and sewer	12,081	9,356	-	-	12,081	9,356
Broadband cable	5,960	5,644	-	-	5,960	5,644
Health and human services	1,446	1,343	-	-	1,446	1,343
Culture and recreation	2,373	3,647	-	-	2,373	3,647
Employee benefits	15,985	17,409	-	-	15,985	17,409
Interest on long-term debt	2,036	1,880	-	-	2,036	1,880
Intergovernmental	1,363	1,282	-	-	1,363	1,282
Electric	-	-	36,885	38,399	36,885	38,399
Total expenses	<u>141,448</u>	<u>128,803</u>	<u>36,885</u>	<u>38,399</u>	<u>178,333</u>	<u>167,202</u>
Change in net position before transfers	(14,700)	(7,434)	13,639	11,104	(1,061)	3,670
Transfers in (out)	8,344	7,328	(8,773)	(7,828)	(429)	(500)
Change in net position	(6,356)	(106)	4,866	3,276	(1,490)	3,170
Net position - beginning of year, as restated	52,643	52,749	(16,788)	(20,064)	35,855	32,685
Net position - end of year	<u>\$ 46,287</u>	<u>\$ 52,643</u>	<u>\$ (11,922)</u>	<u>\$ (16,788)</u>	<u>\$ 34,365</u>	<u>\$ 35,855</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$34,364,742 a change of \$(1,489,797) from the prior year.

The largest portion of net position \$120,073,956 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$3,656,729 represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted governmental net position is a deficit of \$(56,533,363) primarily because of unfunded other post-employment benefits and pension (see Notes 21 and 22). The business-type net assets reflect a deficit balance of \$(32,832,580) because of legal obligations paid in prior years, which will be raised in future utility rates.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(6,355,814). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,211,442)
Nonmajor fund - accrual basis	70,175
Excess principal maturities, over depreciation a nonbudgeted expense	(2,198,678)
Change in other post employment benefits	(2,397,619)
Change in net pension liability	(1,038,453)
Other	<u>420,203</u>
Total	<u>\$ (6,355,814)</u>

Business-type activities. Business-type (electric) activities for the year resulted in a change in net position of \$4,866,017.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,095,461, a change of \$(5,869,534) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$	(1,211,442)
DPW facility		(3,714,709)
Nonmajor funds		<u>(943,383)</u>
Total	\$	<u><u>(5,869,534)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,204,008 while total fund balance was \$11,385,732. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 8,204,008	\$ 6,029,819	\$ 2,174,189	6.7%
Total fund balance	\$ 11,385,732	\$ 12,597,174	\$ (1,211,442)	9.4%

The total fund balance of the general fund changed by \$(1,211,442) during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$	3,905,910
Budgetary appropriation surplus		2,010,759
Shortfall of tax collections over budget		(435,216)
Excess of prior year encumbrances to be spent in the current year over current year encumbrances spent in the subsequent year		(2,617,712)
Use of free cash and overlay surplus		(2,172,676)
Change in stabilization balance		479,863
Other timing differences		<u>(2,382,370)</u>
Total	\$	<u><u>(1,211,442)</u></u>

Included in the total general fund balance is the Town's stabilization account with the following balance:

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 3,589,565	\$ 3,109,702	\$ 479,863

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$(32,832,580), a change of \$3,612,486 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no material differences between the original budget and the final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$204,160,494 (net of accumulated depreciation), a change of \$4,142,153 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- \$3,714,709 – DPW facility
- \$2,333,822 – Transmission line reconstruction
- \$1,609,960 – Electric expansion

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$113,622,729, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

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

Office of the Town Accountant
Town of Norwood, Massachusetts
566 Washington Street
Norwood, Massachusetts 02062

TOWN OF NORWOOD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 16,011,816	\$ 13,228,034	\$ 29,239,850
Investments	6,170,848	5,753,481	11,924,329
Receivables, net of allowance for uncollectibles:			
Property taxes	340,847	-	340,847
Excises	257,527	-	257,527
User fees	818,701	5,231,885	6,050,586
Departmental and other	505,603	-	505,603
Intergovernmental	2,189,943	-	2,189,943
Deposits held by others	-	4,212,327	4,212,327
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	506,495	-	506,495
Capital assets:			
Land and construction in progress	21,126,610	3,957,282	25,083,892
Other capital assets, net of accumulated depreciation	143,108,583	35,968,019	179,076,602
DEFERRED OUTFLOWS OF RESOURCES	<u>10,916,043</u>	<u>514,368</u>	<u>11,430,411</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	201,953,016	68,865,396	270,818,412
LIABILITIES			
Current:			
Warrants payable	1,262,558	9,502	1,272,060
Accrued liabilities	3,521,606	3,610,491	7,132,097
Tax refunds payable	1,228,097	-	1,228,097
Customer deposits and reserves	-	4,306,001	4,306,001
Notes payable	14,512,267	8,000,000	22,512,267
Other current liabilities	401,565	-	401,565
Current portion of long-term liabilities:			
Bonds payable	5,156,652	6,790,000	11,946,652
Compensated absence	138,011	15,365	153,376
Bond premium	72,694	127,248	199,942
Landfill postclosure	20,000	-	20,000
Noncurrent:			
Bonds payable, net of current portion	49,340,177	52,335,900	101,676,077
Compensated absence, net of current portion	2,622,212	291,941	2,914,153
Bond premium, net of current portion	508,863	1,817,562	2,326,425
Landfill postclosure, net of current portion	240,000	-	240,000
Accrued other post-employment benefits	35,293,506	1,535,453	36,828,959
Net pension liability	41,238,459	1,943,174	43,181,633
DEFERRED INFLOWS OF RESOURCES	<u>109,220</u>	<u>5,146</u>	<u>114,366</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	155,665,887	80,787,783	236,453,670
NET POSITION			
Net investment in capital assets	99,163,763	20,910,193	120,073,956
Restricted for:			
Grants and other statutory restrictions	2,811,839	-	2,811,839
Permanent funds:			
Nonexpendable	481,033	-	481,033
Expendable	363,857	-	363,857
Unrestricted	<u>(56,533,363)</u>	<u>(32,832,580)</u>	<u>(89,365,943)</u>
TOTAL NET POSITION	<u>\$ 46,287,129</u>	<u>\$ (11,922,387)</u>	<u>\$ 34,364,742</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>DPW Facility Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 11,307,921	\$ 29,250	\$ 4,674,645	\$ 16,011,816
Investments	5,413,228	-	757,620	6,170,848
Receivables:				
Property taxes	1,248,085	-	-	1,248,085
Excises	517,761	-	-	517,761
User fees	1,183,765	-	-	1,183,765
Departmental and other	505,603	-	-	505,603
Intergovernmental	424,965	-	1,764,978	2,189,943
	<u>20,601,328</u>	<u>29,250</u>	<u>7,197,243</u>	<u>27,827,821</u>
TOTAL ASSETS	\$ 20,601,328	\$ 29,250	\$ 7,197,243	\$ 27,827,821
LIABILITIES				
Warrants payable	\$ 1,258,061	\$ -	\$ 4,497	\$ 1,262,558
Accrued liabilities	2,527,695	-	-	2,527,695
Tax refunds payable	1,228,097	-	-	1,228,097
Notes payable	-	7,500,000	7,012,267	14,512,267
Other liabilities	401,564	-	-	401,564
	<u>5,415,417</u>	<u>7,500,000</u>	<u>7,016,764</u>	<u>19,932,181</u>
TOTAL LIABILITIES	5,415,417	7,500,000	7,016,764	19,932,181
DEFERRED INFLOWS OF RESOURCES	3,800,179	-	-	3,800,179
FUND BALANCES				
Nonspendable	-	-	481,033	481,033
Restricted	-	-	4,163,156	4,163,156
Assigned	3,181,724	-	-	3,181,724
Unassigned	8,204,008	(7,470,750)	(4,463,710)	(3,730,452)
	<u>11,385,732</u>	<u>(7,470,750)</u>	<u>180,479</u>	<u>4,095,461</u>
TOTAL FUND BALANCES	11,385,732	(7,470,750)	180,479	4,095,461
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 20,601,328	\$ 29,250	\$ 7,197,243	\$ 27,827,821

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

TOWN OF NORWOOD, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total governmental fund balances	\$ 4,095,461
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	164,235,193
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,774,137
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(993,911)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(93,392,115)
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>(30,431,636)</u>
Net position of governmental activities	<u><u>\$ 46,287,129</u></u>

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

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

	<u>General</u>	<u>DPW Facility Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 66,160,987	\$ -	\$ -	\$ 66,160,987
Excises	4,435,848	-	-	4,435,848
Penalties, interest and other taxes	2,497,810	-	-	2,497,810
Charges for services	23,154,506	-	3,236,424	26,390,930
Intergovernmental	12,152,864	-	4,756,202	16,909,066
Licenses and permits	2,764,689	-	-	2,764,689
Investment income	148,210	-	39,547	187,757
Miscellaneous	<u>152,853</u>	<u>-</u>	<u>1,203,526</u>	<u>1,356,379</u>
Total Revenues	111,467,767	-	9,235,699	120,703,466
Expenditures:				
Current:				
General government	7,722,382	-	514,668	8,237,050
Public safety	15,074,920	-	1,535,124	16,610,044
Education	43,357,771	-	7,195,393	50,553,164
Public works	8,590,829	3,714,709	2,581,187	14,886,725
Broadband cable	5,952,340	-	-	5,952,340
Water and sewer	10,976,985	-	-	10,976,985
Health and human services	1,170,619	-	158,026	1,328,645
Culture and recreation	2,584,855	-	740,827	3,325,682
Employee benefits	17,994,698	-	-	17,994,698
Debt service	6,937,655	-	-	6,937,655
Intergovernmental	<u>1,363,478</u>	<u>-</u>	<u>-</u>	<u>1,363,478</u>
Total Expenditures	<u>121,726,532</u>	<u>3,714,709</u>	<u>12,725,225</u>	<u>138,166,466</u>
Excess (deficiency) of revenues over expenditures	(10,258,765)	(3,714,709)	(3,489,526)	(17,463,000)
Other Financing Sources (Uses):				
Proceeds of bonds	-	-	3,249,079	3,249,079
Transfers in	9,845,683	-	-	9,845,683
Transfers out	<u>(798,360)</u>	<u>-</u>	<u>(702,936)</u>	<u>(1,501,296)</u>
Total Other Financing Sources (Uses)	<u>9,047,323</u>	<u>-</u>	<u>2,546,143</u>	<u>11,593,466</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,211,442)	(3,714,709)	(943,383)	(5,869,534)
Fund Equity, at Beginning of Year	<u>12,597,174</u>	<u>(3,756,041)</u>	<u>1,123,862</u>	<u>9,964,995</u>
Fund Equity, at End of Year	<u>\$ 11,385,732</u>	<u>\$ (7,470,750)</u>	<u>\$ 180,479</u>	<u>\$ 4,095,461</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds	\$ (5,869,534)								
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">9,366,190</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,376,664)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (574,865) • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(3,249,079)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">5,177,986</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (349,250) • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. (44,526) • Accrued other post-employment benefits not reported in governmental funds (2,397,619) • Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds. <u>(1,038,453)</u> 		Capital outlay purchases	9,366,190	Depreciation	(7,376,664)	Issuance of debt	(3,249,079)	Repayments of debt	5,177,986
Capital outlay purchases	9,366,190								
Depreciation	(7,376,664)								
Issuance of debt	(3,249,079)								
Repayments of debt	5,177,986								
Change in net position of governmental activities	\$ <u>(6,355,814)</u>								

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

TOWN OF NORWOOD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 66,596,202	\$ 66,596,202	\$ 66,596,202	\$ -
Excise	4,219,914	4,219,914	4,435,848	215,934
Charges for services	23,071,222	23,071,222	23,154,506	83,284
Penalties, interest and other taxes	2,351,257	2,351,257	2,497,810	146,553
Licenses and permits	2,676,544	2,676,544	2,764,689	88,145
Intergovernmental	11,353,654	11,353,654	12,152,864	799,210
Investment income	284,403	284,403	38,347	(246,056)
Miscellaneous	-	-	23,321	23,321
Transfers in	6,680,164	6,680,164	9,475,683	2,795,519
Use of free cash	2,172,676	2,172,676	2,172,676	-
Other sources	2,904,855	2,904,855	2,904,855	-
Total Revenues and Other Sources	122,310,891	122,310,891	126,216,801	3,905,910
Expenditures and Other Uses:				
General government	7,690,955	7,690,955	7,522,891	168,064
Public safety	14,930,831	14,930,831	14,812,417	118,414
Education	41,436,322	41,436,322	41,431,763	4,559
Public works	8,124,399	8,124,399	8,080,279	44,120
Broadband cable	6,721,753	6,721,753	6,006,265	715,488
Water and sewer	10,998,901	10,998,901	10,997,985	916
Health and human services	1,198,002	1,198,002	1,166,653	31,349
Culture and recreation	2,694,642	2,694,642	2,642,786	51,856
Debt service	7,354,205	7,354,205	6,854,206	499,999
Intergovernmental	1,390,517	1,390,517	1,363,478	27,039
Employee benefits	18,522,784	18,522,784	18,173,829	348,955
Transfer out	798,360	798,360	798,360	-
Other uses	449,220	449,220	449,220	-
Total Expenditures and Other Uses	122,310,891	122,310,891	120,300,132	2,010,759
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 5,916,669	\$ 5,916,669

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

TOWN OF NORWOOD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u> Electric Light <u>Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 13,228,034
Investments	5,753,481
Accounts receivable	5,231,885
Deposits held by others	<u>4,212,327</u>
Total current assets	28,425,727
Noncurrent:	
Capital Assets	
Land and construction in progress	3,957,282
Other capital assets, net of accumulated depreciation	<u>35,968,019</u>
Total noncurrent assets	<u>39,925,301</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>514,368</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	68,865,396
LIABILITIES	
Current:	
Warrants payable	9,502
Accrued liabilities	3,610,491
Customer deposits and reserves	4,306,001
Notes payable	8,000,000
Current portion of long-term liabilities:	
Bonds payable	6,790,000
Compensated absence	15,365
Bond premium	<u>127,248</u>
Total current liabilities	22,858,607
Noncurrent:	
Bonds payable, net of current portion	52,335,900
Compensated absence, net of current portion	291,941
Bond premium, net of current portion	1,817,562
Accrued other post-employment benefits	1,535,453
Net pension liability	<u>1,943,174</u>
Total noncurrent liabilities	<u>57,924,030</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,146</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	80,787,783
NET POSITION	
Net investment in capital assets	20,910,193
Unrestricted	<u>(32,832,580)</u>
TOTAL NET POSITION	<u>\$ (11,922,387)</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u> Electric Light <u>Fund</u>
Operating Revenues:	
Charges for services	\$ 50,234,764
Other	<u>201,161</u>
Total Operating Revenues	50,435,925
Operating Expenses:	
Operating expenses	30,401,825
Depreciation	1,473,765
Other	<u>2,638,052</u>
Total Operating Expenses	<u>34,513,642</u>
Operating Income	15,922,283
Nonoperating Revenues (Expenses):	
Interest expense	(2,371,275)
Investment income	<u>87,756</u>
Total Nonoperating Revenues (Expenses), Net	<u>(2,283,519)</u>
Income Before Transfers	13,638,764
Transfers:	
Transfers out	<u>(8,772,747)</u>
Change in Net Position	4,866,017
Net Position at Beginning of Year, as restated	<u>(16,788,404)</u>
Net Position at End of Year	<u>\$ (11,922,387)</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u> Electric Light <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 50,908,811
Payments to vendors and employees	<u>(32,741,604)</u>
Net Cash Provided by Operating Activities	18,167,207
<u>Cash Flows From Noncapital Financing Activities:</u>	
Allocation of customer deposits	81,977
Transfers out	<u>(8,772,747)</u>
Net Cash (Used For) Noncapital Financing Activities	(8,690,770)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	8,000,000
Acquisition and construction of capital assets	(4,826,392)
Principal payments on bonds and notes	(6,720,000)
Interest expense	<u>(2,371,275)</u>
Net Cash (Used For) Capital and Related Financing Activities	(5,917,667)
<u>Cash Flows From Investing Activities:</u>	
Investment income	87,756
Change in investments	<u>1,676,586</u>
Net Cash (Used For) Investing Activities	<u>1,764,342</u>
Net Change in Cash and Short-Term Investments	5,323,112
Cash and Short-Term Investments, Beginning of Year	<u>7,904,922</u>
Cash and Short-Term Investments, End of Year	<u>\$ 13,228,034</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 15,922,283
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,473,765
Changes in assets and liabilities:	
User fees	472,886
Other assets	(380,594)
Warrants and accounts payable	(219)
Accrued liabilities	261,036
Net pension liability	421,052
Other liabilities	<u>(3,002)</u>
Net Cash Provided By Operating Activities	<u>\$ 18,167,207</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust Fund <u>(December 31, 2015)</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 2,403,926	\$ -	\$ 764,660
Investments	132,321,463	1,227,710	-
Accounts receivable	<u>87,001</u>	<u>-</u>	<u>15,801</u>
Total Assets	134,812,390	1,227,710	780,461
<u>LIABILITIES AND NET POSITION</u>			
Other liabilities	<u>196,839</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>196,839</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>			
Total net position held in trust	<u>\$ 134,615,551</u>	<u>\$ 1,227,710</u>	<u>\$ 780,461</u>

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

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

	Pension Trust Fund (For the Year Ended <u>December 31, 2015</u>)	Other Post-Employment Benefits Trust <u>Fund</u>
Additions:		
Contributions:		
Employers	\$ 4,214,257	\$ -
Other systems and Commonwealth of Massachusetts	335,971	28,630
Plan members	3,043,394	-
Other	74,772	-
Transfers in	<u>-</u>	<u>428,360</u>
Total contributions	7,668,394	456,990
Investment Income:		
Increase (decrease) in fair value of investments	797,217	5,744
Less: management fees	<u>(758,169)</u>	<u>-</u>
Net investment income	<u>39,048</u>	<u>5,744</u>
Total additions	7,707,442	462,734
Deductions:		
Benefit payments to plan members and beneficiaries	10,596,104	-
Refunds to plan members	337,632	-
Administrative expenses	243,269	-
Other	<u>169,808</u>	<u>-</u>
Total deductions	<u>11,346,813</u>	<u>-</u>
Net increase	(3,639,371)	462,734
Net position:		
Beginning of year	<u>138,254,922</u>	<u>764,976</u>
End of year	<u>\$ 134,615,551</u>	<u>\$ 1,227,710</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Norwood Retirement System (the System) – The system is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the Town Accountant who serves ex officio; two individuals elected by the participants in the system; and individual appointed by the Board of Selectmen; and an individual chosen by the members. The system provides pension benefits to retired Town employees. Other financial information for the System can be obtained from the office of the Retirement Board, Norwood Town Hall, 566 Washington Street, 3rd Floor, Norwood, Massachusetts 02062.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the

end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *DPW facility construction capital project fund* is used to account for activities relating to the new DPW facility project.

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

The Town reports the following major proprietary fund:

- Electric Light (Enterprise) Fund: To account for the operation of the Town's Electric Light operations, which provide electric power to commercial and residential citizens in the Town of Norwood.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *other post-employment benefits trust fund* is used to account for assets that are dedicated to providing benefits to retirees. These funds reduce the unfunded actuarial liability of healthcare and other post-employment benefits. Contributions to this fund are irrevocable.

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$72,192.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets

with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 111,467,767	\$ 121,726,532
Other financing sources/uses (GAAP basis)	<u>9,845,683</u>	<u>798,360</u>
Subtotal (GAAP Basis)	121,313,450	122,524,892
Adjust tax revenue to accrual basis	435,216	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,459,436)
Add end-of-year appropriation carryforwards from expenditures	-	1,841,724
To record use of free cash	2,172,676	-
Other sources	2,904,855	-
To remove unbudgeted stabilization fund	(479,863)	-
Other timing differences	<u>(129,533)</u>	<u>392,952</u>
Budgetary basis	<u>\$ 126,216,801</u>	<u>\$ 120,300,132</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

School computers	\$	(343,857)
MCWT Meadowbrook		(686,161)
DPW facility		(7,509,245)
Town hall repair		(22,488)
Hawes pool boathouse replacement		(73,572)
Land acquisition		(525,000)
Callahan boiler		(375,991)
Prescott floor		(95,968)
School new vehicles		(122,825)
Coakley school driveway		(191,301)
Fire ambulance		(286,247)
DPW new equipment		(621,913)
Eliot field lighting replacement		(799,892)
Coakley field outdoor lighting installation		(280,000)
	\$	<u>(11,934,460)</u>

These deficits will be eliminated through future bond proceeds.

3. Cash and Short-Term Investments

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System does not have a deposit policy for custodial credit risk.

As of June 30, 2016 and December 31, 2015, \$439,080 and \$1,185,387 of the Town's and System's bank balances of \$35,420,340 and \$2,454,497, respectively, were exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of</u>			
				<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>BBB</u>
U.S. Treasury	\$ 1,297		\$ -	\$ 1,297	\$ -	\$ -	\$ -
Certificates of deposits	1,907		-	1,907	-	-	-
Corporate bonds	1,361		-	-	126	1,075	160
Corporate equities	2,055	N/A	2,055	-	-	-	-
Mutual funds	5,371	N/A	5,371	-	-	-	-
Federal agency securities	<u>1,161</u>		<u>-</u>	<u>776</u>	<u>385</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 13,152</u>		<u>\$ 7,426</u>	<u>\$ 3,980</u>	<u>\$ 511</u>	<u>\$ 1,075</u>	<u>\$ 160</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Presented below is the actual rating as of year-end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Corporate equities	\$ 27,980	N/A	\$ 27,980
Mutual funds	79,928	N/A	79,928
PRIT	<u>24,413</u>	N/A	<u>24,413</u>
Total investments	<u>\$ 132,321</u>		<u>\$ 132,321</u>

B. Custodial Credit Risk

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

All of the Town's and System's investments of \$13,152,039 and \$132,321,464 respectively, are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the Town's and System's brokerage firm, which is also the counterparty to these securities. The Town and System manage this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town's name.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
US Treasury	\$ 1,297	10%
Federal home mortgage corp	\$ 1,061	8%

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>N/A</u>
Debt Related Securities:					
U.S. Treasury	\$ 1,297	\$ -	\$ 996	\$ 301	\$ -
Certificates of deposit	1,907	1,503	404	-	-
Corporate bonds	1,361	201	1,160	-	-
Corporate equities	2,055	-	-	-	2,055
Mutual funds	5,371	-	-	-	5,371
Federal agency securities	1,161	100	1,061	-	-
Total	<u>\$ 13,152</u>	<u>\$ 1,804</u>	<u>\$ 3,621</u>	<u>\$ 301</u>	<u>\$ 7,426</u>

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Corporate equities	\$ 27,980	\$ -	\$ -	\$ -	\$ -	\$ 27,980
Mutual funds	79,928	22	2,849	1,733	1,647	73,677
PRIT	24,413	-	-	-	-	24,413
Total	<u>\$ 132,321</u>	<u>\$ 22</u>	<u>\$ 2,849</u>	<u>\$ 1,733</u>	<u>\$ 1,647</u>	<u>\$ 126,070</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Neither the Town nor the Retirement System has policies for foreign currency risk.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Town's investments are classified as Level 1.

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

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities				
Mutual funds	\$ 79,928	\$ -	\$ 79,928	\$ -
Equity securities	27,980	\$ 27,980	\$ -	\$ -
Investments measured at the net asset value (NAV):				
External investment pool	<u>24,413</u>	\$ 24,413	\$ -	\$ -
Total	\$ <u>132,321</u>			
<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 24,413	\$ -	Quarterly	30 days

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ <u>369</u>	369
Personal Property		
2016	6	
2015	43	
2014	30	
2013	21	
2012	19	
2011	22	
Prior	<u>175</u>	
		316
Tax Liens		<u>563</u>
Total	\$ <u>1,248</u>	

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 401	\$ -
Excises	\$ 260	\$ -
Utilities	\$ -	\$ 365

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

8. Interfund Fund Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The transfer from the electric enterprise to the general fund of \$8,772,747 represents budgetary revenue and expense surpluses which are closed to the general fund annually. The sum of all transfers presented in the table agrees with the sum of interfund transfers

presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 9,845,683	\$ 798,360
Nonmajor Funds:		
Special Revenue Funds	-	701,765
Capital Project Funds	-	1,171
Subtotal Nonmajor Funds	-	702,936
<u>Business-Type Funds:</u>		
Electric fund	-	8,772,747
Subtotal Business-Type Funds:	-	8,772,747
<u>Fiduciary Funds:</u>		
Other Post-Employment Benefits Trust Fund	428,360	-
Subtotal Fiduciary Funds:	428,360	-
Grand Total	\$ <u>10,274,043</u>	\$ <u>10,274,043</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 150,740	\$ 1,417	\$ -	\$ 152,157
Machinery, equipment, and furnishings	22,299	1,153	(97)	23,355
Infrastructure	87,867	2,992	-	90,859
Total capital assets, being depreciated	260,906	5,562	(97)	266,371
Less accumulated depreciation for:				
Buildings and improvements	(48,652)	(3,071)	-	(51,723)
Machinery, equipment, and furnishings	(15,264)	(1,479)	97	(16,646)
Infrastructure	(52,066)	(2,827)	-	(54,893)
Total accumulated depreciation	(115,982)	(7,377)	97	(123,262)
Total capital assets, being depreciated, net	144,924	(1,815)	-	143,109
Capital assets, not being depreciated:				
Land	1,608	-	-	1,608
Construction in progress	15,714	3,804	-	19,518
Total capital assets, not being depreciated	17,322	3,804	-	21,126
Governmental activities capital assets, net	\$ <u>162,246</u>	\$ <u>1,989</u>	\$ <u>-</u>	\$ <u>164,235</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 14,316	\$ -	\$ -	\$ 14,316
Machinery, equipment, and furnishings	4,457	610	-	5,067
Infrastructure	42,547	13,151	-	55,698
	<u>61,320</u>	<u>13,761</u>	<u>-</u>	<u>75,081</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(3,182)	(363)	-	(3,545)
Machinery, equipment, and furnishings	(2,810)	(313)	-	(3,123)
Infrastructure	(31,648)	(797)	-	(32,445)
	<u>(37,640)</u>	<u>(1,473)</u>	<u>-</u>	<u>(39,113)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	23,680	12,288	-	35,968
Capital assets, not being depreciated:				
Land	14	-	-	14
Construction in progress	12,880	3,943	(12,880)	3,943
	<u>12,894</u>	<u>3,943</u>	<u>(12,880)</u>	<u>3,957</u>
Total capital assets, not being depreciated				
Business-type activities capital assets, net	<u>\$ 36,574</u>	<u>\$ 16,231</u>	<u>\$ (12,880)</u>	<u>\$ 39,925</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 429
Public safety	837
Education	2,684
Public works	2,035
Culture and recreation	63
Human services	185
Water and sewer	<u>1,144</u>
Total depreciation expense - governmental activities	<u>\$ 7,377</u>
Business-Type Activities:	
Light	<u>\$ 1,473</u>
Total depreciation expense - business-type activities	<u>\$ 1,473</u>

10. Deferred Outflows of Resources

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

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

	<u>Entity-wide Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Differences between expected and actual experience	\$ 1,147,890	\$ 54,089
Net difference between projected and actual investment earnings	9,740,491	458,976
Changes in assumptions	<u>27,662</u>	<u>1,303</u>
	<u>\$ 10,916,043</u>	<u>\$ 514,368</u>

11. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Notes Payable

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/16</u>
General Obligation	2.00%	08/28/15	07/29/16	\$ 20,240,000
General Obligation	1.00%	06/03/16	07/29/16	60,000
MCWT CWP-15-08	2.00%	06/10/16	07/10/16	<u>2,212,267</u>
Total				<u>\$ 22,512,267</u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
General Obligation	\$ 9,556,000	\$ -	\$ (9,556,000)	\$ -
MWPAT Interim Loan Meadowbrook	2,534,364	-	(2,534,364)	-
MWPAT Interim Loan CW-11-12A	125,000	-	(125,000)	-
General Obligation	-	20,240,000	-	20,240,000
General Obligation	-	60,000	-	60,000
MCWT CWP-15-08	<u>-</u>	<u>2,285,644</u>	<u>(73,377)</u>	<u>2,212,267</u>
Total	<u>\$ 12,215,364</u>	<u>\$ 22,585,644</u>	<u>\$ (12,288,741)</u>	<u>\$ 22,512,267</u>

14. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
MWRA Water Bond	8/15/2016	0.000%	\$ 86,792
MWRA Water Bond	8/15/2016	0.000%	301,006
Broad Band Equipment Upgrade	10/15/2016	2.044%	290,000
MWRA Water Bond	8/15/2017	0.000%	77,000
MWRA Water Bond	8/15/2017	0.000%	192,876
MWRA Sewer Bond	5/15/2018	0.000%	132,000
GOB - Library Remodeling (I) Refunding	1/15/2019	2.190%	190,100
MWRA Water Bond	8/15/2019	0.000%	205,587
GOB - Water Department Equipment	10/15/2019	1.909%	20,000
GOB - Fire Department Equipment	10/15/2019	1.948%	240,000
Water Pollution Abatement Trust (I)	6/30/2020	5.344%	215,000
Water Pollution Abatement Trust (I)	6/30/2020	5.350%	60,000
MWRA Water Bond	8/15/2020	0.000%	249,161
GOB - Landfill Closure (O) Refunding	1/15/2021	2.480%	436,000
General Obligation Bond	1/15/2021	2.445%	575,000
General Obligation Refunding 10/01/01	10/1/2021	2.802%	5,505,000
General Obligation 2012	1/15/2022	1.240%	1,085,000
General Obligation Refunding 3/29/2012	1/15/2022	1.570%	1,665,000
Water Bond	8/15/2022	0.000%	350,000
GOB - School Building Repairs	10/15/2022	2.540%	270,000
GOB - Police/Fire Building Repairs	10/15/2022	2.649%	115,000
GOB - Outdoor Recreational Facilities	10/15/2022	2.504%	165,000
General Obligation Bond	1/15/2024	3.260%	915,000
General Obligation Municipal Purpose	8/15/2024	4.213%	215,000
GOB - High School Planning	8/15/2030	3.577%	3,800,000
MWPAT	1/15/2033	2.000%	1,401,585
MWPAT CW11-12	1/15/2033	2.000%	1,905,279
GOB - High School Construction	8/15/2034	3.830%	15,690,000
General Obligation Municipal 1/16/14	1/15/2034	2.988%	6,360,000
General Obligation DPW Facility	6/15/2044	3.388%	5,880,000
MWRA 6/26/14	8/15/2023	0.000%	400,000
General Obligation Refunding 4/23/2015	8/15/2024	1.566%	1,683,000
MWRA Water Bond 8/25/14	8/15/2024	0.000%	450,000
MWRA Water Bond 4/27/15	5/15/2020	0.000%	57,200
MWRA Water Bond 3/2/15	2/15/2020	0.000%	65,164
MWRA Water Bond	8/15/2025	0.000%	500,000
MCWT Bond CW-11-12A	1/15/2036	2.000%	110,127
MCWT Bond CWP-13-19	1/15/2036	2.000%	2,638,952
Total Governmental Activities:			<u>\$ 54,496,829</u>

<u>Business-Type Activities:</u>	<u>Serial</u>	<u>Interest</u>	<u>Amount</u>
<u>Electric Light Enterprise</u>	<u>Maturities</u>	<u>Rate(s) %</u>	<u>Outstanding</u>
	<u>Through</u>		<u>as of</u>
			<u>6/30/16</u>
Electric Substation	1/15/2021	2.480%	\$ 3,043,900
GOB - Electric Judgment/Settlement	1/15/2023	3.597%	7,415,000
GOB - Electric Judgment/Settlement	8/14/2024	3.095%	11,990,000
GOB - Electric Light Dept. Expansion	10/15/2024	2.612%	2,700,000
GOB - Electric	8/15/2029	4.756%	12,600,000
General Obligation Refunding 4/23/2015	8/15/2024	1.566%	21,377,000
Total Business-Type Activities:			<u>\$ 59,125,900</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,156,652	\$ 1,690,905	\$ 6,847,557
2018	4,840,816	1,556,345	6,397,161
2019	4,619,500	1,427,818	6,047,318
2020	4,465,331	1,293,885	5,759,216
2021	4,193,695	1,160,203	5,353,898
2022 - 2026	13,254,887	4,300,067	17,554,954
2027 - 2031	9,829,597	2,501,109	12,330,706
2032 - 2036	6,456,351	878,289	7,334,640
2037 - 2041	1,050,000	252,000	1,302,000
2042 - 2044	630,000	50,400	680,400
Total	<u>\$ 54,496,829</u>	<u>\$ 15,111,021</u>	<u>\$ 69,607,850</u>

The general fund has been designated as the sole sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2016.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 6,790,000	\$ 2,366,361	\$ 9,156,361
2018	6,945,000	2,065,186	9,010,186
2019	7,067,900	1,715,646	8,783,546
2020	7,199,000	1,472,630	8,671,630
2021	7,380,000	1,185,648	8,565,648
2022 - 2026	20,144,000	2,395,998	22,539,998
2027 - 2030	3,600,000	393,300	3,993,300
Total	<u>\$ 59,125,900</u>	<u>\$ 11,594,769</u>	<u>\$ 70,720,669</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance 7/1/15	Additions	Reductions	Total Balance 6/30/16	Less Current Portion	Equals Long-Term Portion 6/30/16
<u>Governmental Activities</u>						
Bonds payable	\$ 56,426	\$ 3,249	\$ (5,178)	\$ 54,497	\$ (5,157)	\$ 49,340
Other:						
Compensated absences	2,623	137	-	2,760	(138)	2,622
Bond premium	654	-	(72)	582	(73)	509
Landfill closure	280	-	(20)	260	(20)	240
Accrued other post- employment benefits	32,896	2,398	-	35,294	-	35,294
Net pension liability	32,303	8,935	-	41,238	-	41,238
Totals	<u>\$ 125,182</u>	<u>\$ 14,719</u>	<u>\$ (5,270)</u>	<u>\$ 134,631</u>	<u>\$ (5,388)</u>	<u>\$ 129,243</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 65,846	\$ -	\$ (6,720)	\$ 59,126	\$ (6,790)	\$ 52,336
Other:						
Compensated absence	299	8	-	307	(15)	292
Bond premium	2,072	-	(127)	1,945	(127)	1,818
Accrued other post- employment benefits	1,425	110	-	1,535	-	1,535
Net pension liability	1,522	421	-	1,943	-	1,943
Totals	<u>\$ 71,164</u>	<u>\$ 539</u>	<u>\$ (6,847)</u>	<u>\$ 64,856</u>	<u>\$ (6,932)</u>	<u>\$ 57,924</u>

D. Advance Refundings

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature on August 15, 2017 and January 15, 2018. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2016, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$705,000 and \$21,665,000, respectively.

15. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$260,000 reported as landfill postclosure care liability at June 30, 2016 represents the future monitoring costs of the landfill. These costs will be cap-

tured annually as part of the operating budget. Actual cost may be higher due to inflation, changes in technology, or changes in regulation.

16. Deferred Inflows of Resources

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

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

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Governmental Funds</u>
	<u>Activities</u>	<u>Activities</u>	<u>General Fund</u>
Unavailable revenues	\$ -	\$ -	\$ 3,800,179
Pension related:			
Changes in proportion and differences between contributions and proportionate share of contributions	<u>109,220</u>	<u>5,146</u>	<u>-</u>
	<u>\$ 109,220</u>	<u>\$ 5,146</u>	<u>\$ 3,800,179</u>

17. Restricted Net Position

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

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

18. Governmental Funds - Balances

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

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance clas-

sifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, and special article appropriations approved at Town Meeting.

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

Unassigned - Represents amounts that are available to be spent in future periods.

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

	General Fund	DPW Facility Major Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 481,033	\$ 481,033
Total Nonexpendable	-	-	481,033	481,033
Restricted				
Capital project funds	-	-	923,859	923,859
Special revenue funds	-	-	2,875,440	2,875,440
Expendable permanent funds	-	-	363,857	363,857
Total Restricted	-	-	4,163,156	4,163,156

(continued)

(continued)

	General Fund	DPW Facility Major Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assigned				
Encumbrances				
General government	364,165	-	-	364,165
Public safety	117,057	-	-	117,057
Education	350,293	-	-	350,293
Public works	134,200	-	-	134,200
Broadband cable	286,736	-	-	286,736
Water and sewer	110,683	-	-	110,683
Health and human services	5,045	-	-	5,045
Culture and recreation	151,014	-	-	151,014
Employee benefits	322,531	-	-	322,531
Reserved for expenditures	<u>1,340,000</u>	<u>-</u>	<u>-</u>	<u>1,340,000</u>
Total Assigned	3,181,724	-	-	3,181,724
Unassigned				
General operating stabilization	3,589,565	-	-	3,589,565
General fund	<u>4,614,443</u>	<u>(7,470,750)</u>	<u>(4,463,710)</u>	<u>(7,320,017)</u>
Total Unassigned	<u>8,204,008</u>	<u>(7,470,750)</u>	<u>(4,463,710)</u>	<u>(3,730,452)</u>
Total Fund Balances	<u>\$ 11,385,732</u>	<u>\$ (7,470,750)</u>	<u>\$ 180,479</u>	<u>\$ 4,095,461</u>

19. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 8,204,008
Stabilization fund	(3,589,565)
Tax refund estimate	<u>1,228,097</u>
Statutory (UMAS) Balance	<u>\$ 5,842,540</u>

20. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a

liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

21. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2016, the actuarial valuation date, approximately 969 retirees and 889 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute a variable percentage of stated premiums, depending on the health insurance they participate in. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded

actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2015.

Annual Required Contribution (ARC)	\$ 6,407,199
Interest on net OPEB obligation	1,270,530
Adjustment to ARC	<u>(1,134,050)</u>
Annual OPEB cost	6,543,679
Contributions made	<u>(4,035,447)</u>
Increase in net OPEB obligation	2,508,232
Net OPEB obligation - beginning of year	<u>34,320,727</u>
Net OPEB obligation - end of year	<u><u>\$ 36,828,959</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 6,543,679	62%	\$ 36,828,959
2015	\$ 6,410,407	60%	\$ 34,320,727
2014	\$ 8,123,648	44%	\$ 31,763,254

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 106,478,384
Actuarial value of plan assets	<u>(765,769)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 105,712,615</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>72%</u>
Covered payroll (active plan members)	<u>\$ 55,387,067</u>
UAAL as a percentage of covered payroll	<u><u>191%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the June 30, 2015 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 6.5%, which decreases to a 4.5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

22. Norwood Contributory Retirement System

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems.

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) and Norwood Housing Authority are members of the Norwood Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at June 30, 2016:

Retirees and beneficiaries receiving benefits	367
Terminated plan members entitled to but not yet receiving benefits	99
Active plan members	<u>581</u>
Total	<u>1,047</u>
Number of participating employers	2

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting require-

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

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

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

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$4,055,016, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was .094%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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

C. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2016 were as follows:

Net Pension Liability of Employers

	<u>Total System</u>
Total pension liability	\$ 179,588,256
Plan fiduciary net position	<u>(134,615,550)</u>
Employers' net pension liability	<u>\$ 44,972,706</u>
Plan fiduciary net position as a percentage of total pension liability	75.0%

Actuarial Assumptions:

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	<u>January 1, 2016</u>
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	annual 3% increase
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3% of first \$13,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2015

valuation were based on the results of the most recent actuarial experience study, dated January 1, 2016, which was for the Period January 1, 2015 through December 31, 2015.

It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2014.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Investment Grade Bonds	10.0%	3.6%
TIPS	5.0%	3.3%
High Yield Bonds	5.0%	6.8%
Emerging Market Bonds (major)	2.5%	5.9%
Emerging Market Bonds (local)	2.5%	6.3%
US Equity	33.0%	7.8%
Developed Market Equity (non-US)	13.0%	8.1%
Emerging Market Equity	11.0%	10.5%
Private Equity	5.0%	9.4%
Core Private Real Estate	8.0%	5.9%
Hedge Funds	5.0%	5.6%

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 60,661,579	\$ 43,181,633	\$ 27,785,992

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

At June 30, 2016, the Town reported a liability of \$43,181,633 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Town’s proportion was 96.017 percent.

At June 30, 2016, the Town’s proportion was 96.017 percent, which was an decrease of 0.443 from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$4,797,251. In addition, 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>
Differences between expected and actual experience	\$ 1,201,979	\$ -
Changes of assumptions	28,965	-
Net difference between projected and actual earnings on pension plan investments	10,199,467	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>114,366</u>
Total	<u>\$ 11,430,411</u>	<u>\$ 114,366</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 3,223,438	\$ 27,360
2018	3,223,438	27,360
2019	2,465,263	27,360
2020	2,465,263	27,360
Thereafter	<u>53,009</u>	<u>4,926</u>
Total	<u>\$ 11,430,411</u>	<u>\$ 114,366</u>

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipi-

pal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

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

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

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

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB with a base year of 2014 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.

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

allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2015</u>	<u>2014</u>
Global equity	40.0%	6.9%	7.20%
Core fixed income	13.0%	2.4%	2.50%
Private equity	10.0%	8.5%	8.80%
Real estate	10.0%	6.5%	6.30%
Value added fixed income	10.0%	5.8%	6.30%
Hedge funds	9.0%	5.8%	5.50%
Portfolio completion strategies	4.0%	5.5%	0.00%
Timber/natural resources	4.0%	6.6%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

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

F. Sensitivity Analysis

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

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

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a

special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth’s proportionate share of the MTRS’ collective net pension liability and pension expense that is associated with the Town was \$81,608,139 and \$6,619,146 respectively, based on a proportionate share of .39829%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

24. Risk Management

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. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

25. Beginning Net Position Restatement

The beginning (July 1, 2015) net position of the Town has been restated as follows:

	Business- Type <u>Activities</u> Electric Enterprise <u>Fund</u>
As previously reported	\$ (15,588,404)
Capital asset adjustment	<u>(1,200,000)</u>
As restated	<u>\$ (16,788,404)</u>

**TOWN OF NORWOOD, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/15	\$ 766	\$ 106,478	\$ 105,712	0.7%	\$ 55,387	190.9%
06/30/13	\$ -	\$ 123,311	\$ 123,311	0.0%	\$ 55,387	222.6%
06/30/11	\$ -	\$ 139,668	\$ 139,668	0.0%	\$ 55,240	252.8%
01/01/08	\$ -	\$ 132,031	\$ 132,031	0.0%	\$ 42,589	310.0%

See Independent Auditors' Report.

TOWN OF NORWOOD, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)

Norwood Contributory Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a <u>Percentage of Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2016	96.0170%	\$43,181,633	\$ 29,768,676	145.06%	75.00%
June 30, 2015	96.4612%	\$33,824,919	\$ 28,082,402	120.45%	79.80%

Massachusetts Teachers' Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated <u>with the Town</u>	Total Net Pension Liability Associated with the <u>Town</u>	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a Percentage of <u>Covered Payroll</u>	Plan Fiduciary Net Position Percentage of the Total <u>Pension Liability</u>
June 30, 2016	0.39829%	\$ -	\$ 81,608,139	\$ 81,608,139	\$ 25,247,157	0.00%	55.38%
June 30, 2015	0.39829%	\$ -	\$ 63,449,721	\$ 63,449,721	\$ 24,473,613	0.00%	61.64%

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

See Independent Auditors' Report.

TOWN OF NORWOOD, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

<u>Norwood Contributory Retirement System</u>					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 4,055,016	\$ 4,055,016	\$ -	\$ 29,768,676	13.62%
June 30, 2015	\$ 3,764,002	\$ 3,764,002	\$ -	\$ 28,082,402	13.40%

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

See Independent Auditors' Report.

**TOWN OF NORWOOD, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 2,817,922	\$ 3,079,297
Interest on unfunded liability - time value of \$	13,210,400	13,981,063
Differences between expected and actual experience	1,551,316	-
Changes of assumptions	37,383	-
Benefit payments, including refunds of member contributions	(10,933,737)	(10,127,739)
Interest on benefit payments	<u>(415,777)</u>	<u>-</u>
Net change in total pension liability	6,267,507	6,932,621
Total pension liability - beginning	<u>173,320,749</u>	<u>166,388,128</u>
Total pension liability - ending (a)	<u>\$ 179,588,256</u>	<u>\$ 173,320,749</u>
Plan fiduciary net position		
Contributions - employer	\$ 4,214,257	\$ 4,165,589
Contributions - member	3,043,394	3,004,906
Net investment income	(43,452)	6,986,174
Benefit payments, including refunds of member contributions	(10,933,737)	(9,734,161)
Administrative expense	(330,578)	(301,285)
Other	<u>410,744</u>	<u>328,865</u>
Net change in plan fiduciary net position	(3,639,372)	4,450,088
Plan fiduciary net position - beginning	<u>138,254,922</u>	<u>133,804,834</u>
Plan fiduciary net position - ending (b)	<u>\$ 134,615,550</u>	<u>\$ 138,254,922</u>
Net pension liability (asset) - ending (a-b)	<u>\$ 44,972,706</u>	<u>\$ 35,065,827</u>

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF NORWOOD, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 179,588,256	\$ 173,320,749
Plan fiduciary net position	<u>134,615,550</u>	<u>138,254,922</u>
Net pension liability (asset)	<u>\$ 44,972,706</u>	<u>\$ 35,065,827</u>
Plan fiduciary net position as a percentage of the total pension liability	74.96%	79.77%
Covered payroll	\$ 29,768,676	\$ 29,112,640
Participating employer net pension liability (asset) as a percentage of covered payroll	151.07%	120.45%

Schedule of Contributions

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 4,214,257	\$ 3,902,000
Contributions in relation to the actuarially determined contribution	<u>4,214,257</u>	<u>3,902,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 29,768,676	\$ 29,112,640
Contributions as a percentage of covered payroll	14.16%	13.40%

Schedule of Investment Returns

Year Ended December 31

	<u>2016</u>	<u>2015</u>
Annual money weighted rate of return, net of investment expense	0.094%	5.64%

*Schedules are intended to show information for 10 years.
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See Independent Auditors' Report.