

**TOWN OF LYNNFIELD, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2015**

**Town of Lynnfield, Massachusetts**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Lynnfield, 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 Lynnfield, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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 Lynnfield, Massachusetts, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

*Melanson Heath*

January 12, 2016

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

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

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

This discussion and analysis is intended to serve as an introduction to the 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/deferred outflows and liabilities/deferred inflows 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, health and human services, culture and recreation, insurance and benefits, interest on debt, and intergovernmental assessments. The business-type activities include golf course and emergency medical services 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 funds 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 funds Balance Sheet and the governmental funds 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:

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, proprietary funds are used to account for the Town's golf courses and emergency medical services 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 information for the golf course and emergency medical services operations, both of which are considered to be major funds.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information

which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$22,773,826 (i.e., net position), a change of \$897,209 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$11,730,415, a change of \$2,919,467 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,792,182, a change of \$2,542,333 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$25,925,208, a change of \$2,284,389 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. All amounts are presented in thousands.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 16,618	\$ 14,081	\$ 170	\$ 271	\$ 16,788	\$ 14,352
Capital assets	<u>76,088</u>	<u>71,027</u>	<u>13,359</u>	<u>13,029</u>	<u>89,447</u>	<u>84,056</u>
Total assets	92,706	85,108	13,529	13,300	106,235	98,408
Current liabilities	6,276	5,505	680	659	6,956	6,164
Noncurrent liabilities	69,772	36,304	6,427	7,006	76,199	43,310
Deferred inflows	<u>307</u>	<u>232</u>	<u>-</u>	<u>-</u>	<u>307</u>	<u>232</u>
Total liabilities and deferred inflows	76,355	42,041	7,107	7,665	83,462	49,706
Net position:						
Net investment in capital assets	55,340	54,316	6,360	5,476	61,700	59,792
Restricted	6,587	4,969	-	-	6,587	4,969
Unrestricted	<u>(45,576)</u>	<u>(16,218)</u>	<u>62</u>	<u>159</u>	<u>(45,514)</u>	<u>(16,059)</u>
Total net position	<u>\$ 16,351</u>	<u>\$ 43,067</u>	<u>\$ 6,422</u>	<u>\$ 5,635</u>	<u>\$ 22,773</u>	<u>\$ 48,702</u>



# CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,330	\$ 3,854	\$ 1,143	\$ 509	\$ 4,473	\$ 4,363
Operating grants and contributions	9,001	10,736	-	-	9,001	10,736
Capital grants and contributions	534	602	-	-	534	602
General revenues:						
Property taxes	38,861	35,531	-	-	38,861	35,531
Excises	3,226	2,586	-	-	3,226	2,586
Penalties and interest on taxes	609	552	-	-	609	552
Grants and contributions not restricted to specific programs	1,043	1,011	-	-	1,043	1,011
Investment income	11	21	-	1	11	22
Other	<u>1,772</u>	<u>2,632</u>	<u>-</u>	<u>-</u>	<u>1,772</u>	<u>2,632</u>
Total revenues	<u>58,387</u>	<u>57,525</u>	<u>1,143</u>	<u>510</u>	<u>59,530</u>	<u>58,035</u>
Expenses:						
General government	2,647	2,081	-	-	2,647	2,081
Public safety	4,424	4,968	-	-	4,424	4,968
Education	31,375	32,143	-	-	31,375	32,143
Public works	6,635	6,585	-	-	6,635	6,585
Health and human services	588	572	-	-	588	572
Culture and recreation	1,069	908	-	-	1,069	908
Insurance and benefits	9,175	9,016	-	-	9,175	9,016
Interest on long-term debt	713	607	-	-	713	607
Intergovernmental	373	399	-	-	373	399
Golf course	-	-	888	881	888	881
Emergency medical services	<u>-</u>	<u>-</u>	<u>689</u>	<u>-</u>	<u>689</u>	<u>-</u>
Total expenses	<u>56,999</u>	<u>57,279</u>	<u>1,577</u>	<u>881</u>	<u>58,576</u>	<u>58,160</u>
Change in net position before transfers and permanent fund contributions	1,388	246	(434)	(371)	954	(125)
Transfers in (out)	(920)	(915)	820	815	(100)	(100)
Permanent fund contributions	<u>43</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>43</u>	<u>23</u>
Change in net position	511	(646)	386	444	897	(202)
<sup>1</sup> Net position - beginning of year, as restated	<u>15,840</u> <sup>1</sup>	<u>43,713</u>	<u>6,036</u> <sup>1</sup>	<u>5,191</u>	<u>21,876</u> <sup>1</sup>	<u>48,904</u>
Net position - end of year	<u>\$ 16,351</u>	<u>\$ 43,067</u>	<u>\$ 6,422</u>	<u>\$ 5,635</u>	<u>\$ 22,773</u>	<u>\$ 48,702</u>

<sup>1</sup> Restated from the prior year as described in Note 26. Comparative balances for fiscal year 2014 as reported in the MD&A have not been restated.

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 \$22,773,826, a change of \$897,209 from the prior year.

The largest portion of net position, \$61,699,781, reflects our investment in capital assets (e.g., land and construction in progress, land improvements, buildings and

improvements, machinery, equipment and furnishings, 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 \$6,587,689 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit balance of \$(45,513,644), which is primarily caused by the Town's unfunded net other post-employment benefit and net pension liabilities.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$511,417. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 2,034,482
Capital additions funded by free cash and other operating monies	582,992
Sale of real estate fund change in fund balance	2,354,990
Major capital project funds change in fund balances (accrual basis)	27,420
Nonmajor funds change in fund balance (accrual basis)	1,758,332
Depreciation expense in excess of principal debt service	(1,350,818)
Change in other post-employment benefit liability	(3,933,956)
Change in net pension liability	(112,069)
Other revenue and expense accruals	<u>(849,956)</u>
Total	<u><u>\$ 511,417</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$385,792. Key elements of this change are as follows:

Golf course operations	\$ 462,031
Emergency medical services operations	<u>(76,239)</u>
Total	<u><u>\$ 385,792</u></u>

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

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

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

Such information is useful in assessing financing requirements. In particular, 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 \$11,730,415, a change of \$2,919,467 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance (explained in more detail below)	\$ 2,034,482
Sale of real estate fund change in fund balance	2,354,990
Major capital project funds change in fund balances	(2,761,858)
Nonmajor funds change in fund balance	<u>1,291,853</u>
Total	<u>\$ 2,919,467</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 \$5,792,182, while total fund balance was \$6,593,910. 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>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,792,182	\$ 3,249,849	\$ 2,542,333	12.7%
Total fund balance	\$ 6,593,910	\$ 4,559,428	\$ 2,034,482	14.5%

The total fund balance of the general fund changed by \$2,034,482 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (953,915)
Revenues in excess of budget	1,054,614
Expenditures less than budget	444,854
Prior year encumbrances less than current year encumbrances	292,151
Change in stabilization funds balance	307,437
Raise prior year snow & ice deficit	243,981
Other	<u>645,360</u>
Total	<u>\$ 2,034,482</u>

Included in the total general fund unassigned fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization fund	\$ 1,136,601	\$ 982,226	\$ 154,375
Capital facilities maintenance fund	<u>733,307</u>	<u>580,245</u>	<u>153,062</u>
Total	<u>\$ 1,869,908</u>	<u>\$ 1,562,471</u>	<u>\$ 307,437</u>

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

Unrestricted net position of the proprietary funds at the end of the year amounted to \$62,255, a change of \$(96,543) 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**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$4,540. This change was funded by free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$89,447,911 (net of accumulated depreciation), a change of \$5,391,559 from the prior year. This investment in capital assets includes land and construction in progress, land improvements, buildings and building improvements, machinery, equipment and furnishings, and infrastructure assets.

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

- \$1,405,903 for the acquisition of Center Farm land.
- \$168,455 of construction in progress for golf course renovations, highway garage repairs, and other projects.
- \$5,822,955 for outdoor recreational and athletic facilities.
- \$601,322 for various building improvements and departmental machinery, equipment, and furnishings, including public safety and highway vehicles, and school technology equipment.
- \$466,479 for various road improvements.
- \$(3,073,555) for total current year depreciation expense.

**Credit rating.** In fiscal year 2015, the Town's Standard & Poor's credit rating remained unchanged at AA+/Stable.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$25,925,208, all of which was backed by the full faith and credit of the government.

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

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Lynnfield'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 Asst. Finance Director/Town Accountant  
Town of Lynnfield, Massachusetts  
55 Summer Street  
Lynnfield, Massachusetts 01940

## TOWN OF LYNNFIELD, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 11,469,057	\$ 57,103	\$ 11,526,160
Investments	2,592,351	-	2,592,351
Notes receivable	56,250	-	56,250
Receivables, net of allowance for uncollectibles:			
Property taxes	431,493	-	431,493
Excises	242,754	-	242,754
User fees	-	112,652	112,652
Departmental and other	632,130	-	632,130
Intergovernmental	741,565	-	741,565
Betterments	13,775	-	13,775
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	258,333	-	258,333
Betterments	180,062	-	180,062
Capital assets			
Land and construction in progress	7,873,388	12,746,262	20,619,650
Other capital assets, net of accumulated depreciation	68,215,269	612,992	68,828,261
<b>TOTAL ASSETS</b>	<b>92,706,427</b>	<b>13,529,009</b>	<b>106,235,436</b>
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	605,614	5,559	611,173
Accrued liabilities	634,021	95,180	729,201
Notes payable	2,377,971	-	2,377,971
Other current liabilities	608,024	-	608,024
Current portion of long-term liabilities:			
Bonds payable	1,815,626	579,000	2,394,626
Compensated absences	233,772	-	233,772
Noncurrent:			
Bonds payable, net of current portion	17,103,582	6,427,000	23,530,582
Compensated absences, net of current portion	482,929	-	482,929
Net other post-employment benefits obligation	25,361,372	-	25,361,372
Net pension liability	26,824,501	-	26,824,501
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>307,459</b>	<b>-</b>	<b>307,459</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>76,354,871</b>	<b>7,106,739</b>	<b>83,461,610</b>
<b>NET POSITION</b>			
Net investment in capital assets	55,339,766	6,360,015	61,699,781
Restricted for:			
Grants and other statutory restrictions	5,695,193	-	5,695,193
Permanent funds:			
Nonexpendable	866,975	-	866,975
Expendable	25,521	-	25,521
Unrestricted	(45,575,899)	62,255	(45,513,644)
<b>TOTAL NET POSITION</b>	<b>\$ 16,351,556</b>	<b>\$ 6,422,270</b>	<b>\$ 22,773,826</b>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	Total
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	
		Expenses					
<b>Governmental Activities:</b>							
General government	\$ 2,647,269	\$ 277,559	\$ 327,047	\$ -	\$ (2,042,663)	\$ -	\$ (2,042,663)
Public safety	4,423,705	360,303	183,998	-	(3,879,404)	-	(3,879,404)
Education	31,375,172	2,317,372	8,211,909	67,669	(20,778,222)	-	(20,778,222)
Public works	6,634,587	111,057	164,690	466,512	(5,892,328)	-	(5,892,328)
Health and human services	587,958	102,351	36,431	-	(449,176)	-	(449,176)
Culture and recreation	1,069,362	161,237	76,909	-	(831,216)	-	(831,216)
Insurance and benefits	9,175,205	-	-	-	(9,175,205)	-	(9,175,205)
Interest	713,244	-	-	-	(713,244)	-	(713,244)
Intergovernmental	372,449	-	-	-	(372,449)	-	(372,449)
Total Governmental Activities	56,998,951	3,329,879	9,000,984	534,181	(44,133,907)	-	(44,133,907)
<b>Business-Type Activities:</b>							
Golf course	888,400	530,043	-	-	-	(358,357)	(358,357)
Emergency medical services	689,061	612,764	-	-	-	(76,297)	(76,297)
Total Business-Type Activities	1,577,461	1,142,807	-	-	-	(434,654)	(434,654)
Total	\$ 58,576,412	\$ 4,472,686	\$ 9,000,984	\$ 534,181	(44,133,907)	(434,654)	(44,568,561)
<b>General Revenues, Transfers, and Contributions:</b>							
					38,861,219	-	38,861,219
Property taxes							
Excises					3,226,540	-	3,226,540
Penalties, interest and other taxes					608,955	-	608,955
Grants and contributions not restricted to specific programs					1,042,971	-	1,042,971
Investment income					11,060	493	11,553
Miscellaneous					1,771,582	-	1,771,582
Transfers, net					(919,953)	819,953	(100,000)
Permanent fund contributions					42,950	-	42,950
Total general revenues, transfers, and contributions					44,645,324	820,446	45,465,770
Change in Net Position					511,417	385,792	897,209
<b>Net Position:</b>							
Beginning of year, as restated					15,840,139	6,036,478	21,876,617
End of year					\$ 16,351,556	\$ 6,422,270	\$ 22,773,826

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

## TOWN OF LYNNFIELD, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2015

	General <u>Fund</u>	Sale of Real <u>Estate</u>	Center Farm <u>Acquisition</u>	Outdoor Recreation <u>Facilities</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>						
Cash and short-term investments	\$ 6,115,372	\$ 2,199,288	\$ -	\$ 920,295	\$ 2,234,102	\$ 11,469,057
Investments	1,752,283	-	-	-	840,068	2,592,351
Notes receivable	-	56,250	-	-	-	56,250
Receivables:						
Property taxes	774,616	-	-	-	-	774,616
Excises	296,514	-	-	-	-	296,514
Departmental and other	7,130	625,000	-	-	-	632,130
Intergovernmental	-	-	-	-	741,565	741,565
<b>TOTAL ASSETS</b>	<b>\$ 8,945,915</b>	<b>\$ 2,880,538</b>	<b>\$ -</b>	<b>\$ 920,295</b>	<b>\$ 3,815,735</b>	<b>\$ 16,562,483</b>
<b>LIABILITIES</b>						
Warrants payable	\$ 511,375	\$ -	\$ -	\$ 5,069	\$ 89,170	\$ 605,614
Accrued liabilities	347,557	-	-	-	7,853	355,410
Notes payable	-	-	1,405,903	822,068	150,000	2,377,971
Other liabilities	608,024	-	-	-	-	608,024
<b>TOTAL LIABILITIES</b>	<b>1,466,956</b>	<b>-</b>	<b>1,405,903</b>	<b>827,137</b>	<b>247,023</b>	<b>3,947,019</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>885,049</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>885,049</b>
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	866,975	866,975
Restricted	-	2,880,538	-	93,158	2,885,151	5,858,847
Committed	272,525	-	-	-	-	272,525
Assigned	529,203	-	-	-	-	529,203
Unassigned	5,792,182	-	(1,405,903)	-	(183,414)	4,202,865
<b>TOTAL FUND BALANCES</b>	<b>6,593,910</b>	<b>2,880,538</b>	<b>(1,405,903)</b>	<b>93,158</b>	<b>3,568,712</b>	<b>11,730,415</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,945,915</b>	<b>\$ 2,880,538</b>	<b>\$ -</b>	<b>\$ 920,295</b>	<b>\$ 3,815,735</b>	<b>\$ 16,562,483</b>

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



TOWN OF LYNNFIELD, MASSACHUSETTS

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

JUNE 30, 2015

<b>Total governmental fund balances</b>	\$ 11,730,415
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	76,088,657
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	746,499
<ul style="list-style-type: none"><li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(278,611)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, compensated absences, net OPEB obligation, and net pension liability are not due and payable in the current period; therefore, they are not reported in the governmental funds.</li></ul>	(71,821,782)
<ul style="list-style-type: none"><li>• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.</li></ul>	<u>(113,622)</u>
<b>Net position of governmental activities</b>	\$ <u><u>16,351,556</u></u>

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

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

	General Fund	Sale of Real Estate	Center Farm Acquisition	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 38,811,833	\$ -	\$ -	\$ -	\$ -	\$ 38,811,833
Excises	3,110,340	-	-	-	-	3,110,340
Penalties, interest and other taxes	88,055	-	-	-	50,522	138,577
Payments in lieu of taxes	470,449	-	-	-	-	470,449
Charges for services	431,801	-	-	-	2,475,894	2,907,695
Intergovernmental	5,155,779	-	-	-	2,069,933	7,225,712
Licenses and permits	427,977	-	-	-	-	427,977
Fines and forfeitures	83,541	-	-	-	-	83,541
Investment income	11,060	-	-	-	3,452	14,512
Miscellaneous	<u>128,473</u>	<u>2,354,990</u>	<u>-</u>	<u>-</u>	<u>526,869</u>	<u>3,010,332</u>
Total Revenues	48,719,308	2,354,990	-	-	5,126,670	56,200,968
<b>Expenditures:</b>						
Current:						
General government	1,964,715	-	1,405,903	5,822,955	542,441	9,736,014
Public safety	4,182,024	-	-	-	85,040	4,267,064
Education	24,213,136	-	-	-	2,789,577	27,002,713
Public works	6,099,024	-	-	-	551,487	6,650,511
Health and human services	409,161	-	-	-	66,906	476,067
Culture and recreation	850,010	-	-	-	219,181	1,069,191
Insurance and benefits	5,129,181	-	-	-	-	5,129,181
Debt service	2,303,611	-	-	-	-	2,303,611
Intergovernmental	<u>372,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>372,449</u>
Total Expenditures	<u>45,523,311</u>	<u>-</u>	<u>1,405,903</u>	<u>5,822,955</u>	<u>4,254,632</u>	<u>57,006,801</u>
Excess (deficiency) of revenues over expenditures	3,195,997	2,354,990	(1,405,903)	(5,822,955)	872,038	(805,833)
<b>Other Financing Sources (Uses):</b>						
Bond proceeds	-	-	-	4,467,000	-	4,467,000
Bond premiums	178,253	-	-	-	-	178,253
Transfers in	577,222	-	-	-	997,037	1,574,259
Transfers out	<u>(1,916,990)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(577,222)</u>	<u>(2,494,212)</u>
Total Other Financing Sources (Uses)	<u>(1,161,515)</u>	<u>-</u>	<u>-</u>	<u>4,467,000</u>	<u>419,815</u>	<u>3,725,300</u>
Change in fund balance	2,034,482	2,354,990	(1,405,903)	(1,355,955)	1,291,853	2,919,467
Fund Equity, at Beginning of Year, as restated	<u>4,559,428</u>	<u>525,548</u>	<u>-</u>	<u>1,449,113</u>	<u>2,276,859</u>	<u>8,810,948</u>
Fund Equity, at End of Year	<u>\$ 6,593,910</u>	<u>\$ 2,880,538</u>	<u>\$ (1,405,903)</u>	<u>\$ 93,158</u>	<u>\$ 3,568,712</u>	<u>\$ 11,730,415</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2015

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 2,919,467</b>
<ul style="list-style-type: none"><li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</li></ul>	
Capital outlay purchases	8,305,749
Depreciation	(2,979,429)
<ul style="list-style-type: none"><li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</li></ul>	(728,954)
<ul style="list-style-type: none"><li>The issuance of long-term debt (e.g., bonds) 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:</li></ul>	
Issuance of debt	(4,467,000)
Repayments of debt	1,628,611
<ul style="list-style-type: none"><li>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(38,244)
<ul style="list-style-type: none"><li>Some expenses reported in the Statement of Activities, such as compensated absences, net OPEB, and net pension do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li></ul>	<u>(4,128,783)</u>
<b>Change in net position of governmental activities</b>	<b>\$ <u>511,417</u></b>

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

## TOWN OF LYNNFIELD, MASSACHUSETTS

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 38,166,473	\$ 38,166,473	\$ 38,166,473	\$ -
Excises	2,383,038	2,383,038	3,110,340	727,302
Penalties, interest and other taxes	139,000	139,000	88,055	(50,945)
Payments in lieu of taxes	325,000	325,000	470,449	145,449
Charges for services	377,000	377,000	431,801	54,801
Intergovernmental	5,114,946	5,114,946	5,155,779	40,833
Licenses and permits	533,594	533,594	427,977	(105,617)
Fines and forfeits	75,000	75,000	83,541	8,541
Investment income	5,000	5,000	3,622	(1,378)
Other	10,000	10,000	128,473	118,473
Debt premiums	-	-	117,155	117,155
Transfers in	577,222	577,222	577,222	-
Use of free cash	<u>949,375</u>	<u>953,915</u>	<u>953,915</u>	<u>-</u>
Total Revenues and Other Sources	48,655,648	48,660,188	49,714,802	1,054,614
<b>Expenditures and Other Uses:</b>				
General government	2,111,802	2,125,067	1,970,696	154,371
Public safety	4,159,420	4,312,639	4,187,167	125,472
Education	24,412,871	24,243,580	24,216,241	27,339
Public works	6,328,527	6,450,625	6,369,775	80,850
Health and human services	417,955	421,348	409,311	12,037
Culture and recreation	839,799	843,334	833,890	9,444
Debt service	4,081,529	4,059,505	4,059,503	2
Intergovernmental	374,204	374,204	372,449	1,755
Insurance and benefits	5,285,560	5,185,905	5,152,321	33,584
Other	243,981	243,981	243,981	-
Transfers out	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
Total Expenditures and Other Uses	<u>48,655,648</u>	<u>48,660,188</u>	<u>48,215,334</u>	<u>444,854</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,499,468</u>	\$ <u>1,499,468</u>

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

## TOWN OF LYNNFIELD, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Golf Course Fund	Emergency Medical Services Fund	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 48,985	\$ 8,118	\$ 57,103
User fee receivables, net of allowance	-	112,652	112,652
Total current assets	48,985	120,770	169,755
Noncurrent:			
Land and construction in progress	12,746,262	-	12,746,262
Capital assets, net of accumulated depreciation	408,371	204,621	612,992
Total noncurrent assets	13,154,633	204,621	13,359,254
<b>TOTAL ASSETS</b>	13,203,618	325,391	13,529,009
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	5,380	179	5,559
Accrued liabilities	95,180	-	95,180
Current portion of long-term liabilities:			
Bonds payable	579,000	-	579,000
Total current liabilities	679,560	179	679,739
Noncurrent:			
Bonds payable, net of current portion	6,427,000	-	6,427,000
Total noncurrent liabilities	6,427,000	-	6,427,000
<b>TOTAL LIABILITIES</b>	7,106,560	179	7,106,739
<b>NET POSITION</b>			
Net investment in capital assets	6,155,394	204,621	6,360,015
Unrestricted	(58,336)	120,591	62,255
<b>TOTAL NET POSITION</b>	\$ 6,097,058	\$ 325,212	\$ 6,422,270

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Golf Course Fund	Emergency Medical Services Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 530,043	\$ 612,764	\$ 1,142,807
Total Operating Revenues	530,043	612,764	1,142,807
<b>Operating Expenses:</b>			
Salaries and benefits	373,667	544,528	918,195
Depreciation	34,204	59,922	94,126
Other	220,485	84,611	305,096
Total Operating Expenses	628,356	689,061	1,317,417
Operating Income (Loss)	(98,313)	(76,297)	(174,610)
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	435	58	493
Interest expense	(260,044)	-	(260,044)
Total Nonoperating Revenues (Expenses), Net	(259,609)	58	(259,551)
Income (Loss) before transfers	(357,922)	(76,239)	(434,161)
<b>Transfers:</b>			
Operating transfers in	819,953	-	819,953
Total transfers	819,953	-	819,953
Change in Net Position	462,031	(76,239)	385,792
Net Position at Beginning of Year, as restated	5,635,027	401,451	6,036,478
Net Position at End of Year	\$ 6,097,058	\$ 325,212	\$ 6,422,270

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds	
	Golf Course Fund	Emergency Medical Services Fund
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 530,043	\$ 595,020
Payments to employees and vendors	<u>(598,971)</u>	<u>(631,233)</u>
Net Cash Provided By (Used For) Operating Activities	(68,928)	(36,213)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition of capital assets	(159,369)	-
Transfers from general fund	819,953	-
Principal payments on bonds	(554,000)	-
Interest expense	<u>(260,044)</u>	<u>-</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(153,460)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>435</u>	<u>58</u>
Net Cash Provided By (Used For) Investing Activities	<u>435</u>	<u>58</u>
Net Change in Cash and Short-Term Investments	(221,953)	(36,155)
Cash and Short-Term Investments, Beginning of Year	<u>270,938</u>	<u>44,273</u>
Cash and Short-Term Investments, End of Year	<u>\$ 48,985</u>	<u>\$ 8,118</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u></b>		
Operating income (loss)	\$ (98,313)	\$ (76,297)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense	34,204	59,922
Changes in assets and liabilities:		
Accounts receivable	-	(17,744)
Warrants and accounts payable	2,725	(2,094)
Accrued liabilities	<u>(7,544)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ (68,928)</u>	<u>\$ (36,213)</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	OPEB Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>			
Cash and short term investments	\$ 200,373	\$ 8,428	\$ 57,370
Investments	-	179,393	-
Other assets	-	-	116,993
Total Assets	200,373	187,821	174,363
<b><u>LIABILITIES AND NET POSITION</u></b>			
Warrants payable	-	-	7,388
Other liabilities	-	-	166,975
Total Liabilities	-	-	174,363
<b><u>NET POSITION</u></b>			
Restricted for endowment	-	154,030	-
Restricted for benefits and other purposes	200,373	33,791	-
Total net position held in trust	\$ 200,373	\$ 187,821	\$ -

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



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

	OPEB Trust Fund	Private Purpose Trust Funds
<b>Additions:</b>		
Contributions	\$ -	\$ 20
Investment income	<u>332</u>	<u>587</u>
Total additions	332	607
<b>Deductions:</b>		
Scholarship awards	<u>-</u>	<u>760</u>
Total deductions	<u>-</u>	<u>760</u>
<b>Other financing sources (uses):</b>		
Transfers in	<u>100,000</u>	<u>-</u>
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>
Net increase (decrease)	100,332	(153)
<b>Net position:</b>		
Beginning of year	<u>100,041</u>	<u>187,974</u>
End of year	<u>\$ 200,373</u>	<u>\$ 187,821</u>

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

# TOWN OF LYNNFIELD, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Lynnfield (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. In fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

#### B. Related Organization

The Town has a related organization relationship with Lynnfield Initiative for Elders, Inc. (LIFE), a Massachusetts non-profit corporation organized under Chapter 180 of the Massachusetts General Laws to own, develop, operate, and manage elderly housing units within the Town of Lynnfield. The Town, acting through the Board of Selectmen, is the sole Class A member of LIFE, and as such, has the right to fix the number of LIFE's directors, elect a majority of directors, remove directors, and fill all director vacancies. In addition, the Board of Selectmen must approve LIFE's plans for financing, constructing, and managing real property before they become final. However, the Town is not financially accountable for LIFE because it cannot impose its will and does not have a financial benefit or burden relationship with LIFE, even though it appoints a voting majority of LIFE's governing Board of Directors.

#### C. 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 are normally 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 is offset by program revenues.

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

#### 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 proprietary funds are reported as separate columns in the fund financial statements.

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

##### Government-Wide Financial Statements

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

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

##### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 *Sale of Real Estate* fund is used to account for revenues and appropriations associated with the sale or disposal of Town-owned real property.
- The *Center Farm Acquisition* fund is used to account for activity associated with the purchase of 567 Main Street, which was approved at the Town's June 2014 special town meeting.
- The *Outdoor Recreation Facilities* fund is used to account for activity associated with the construction of municipal outdoor recreational and athletic facilities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary 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 funds:

- The *Golf Course Fund* is used to account for all of the activity associated with the Town's operation of the Reedy Meadow and King Rail Reserve golf courses.
- The *Emergency Medical Services Fund* is used to account for activity associated with providing emergency medical services to individuals within the Town.

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

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

#### F. 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 or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of certificates of deposits, U.S. government securities, bonds, and mutual funds. Investments are carried at market value.

#### G. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth); unless an override or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$10,103.

#### H. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of

more than \$5,000 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

*I. 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 and proprietary 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.

*J. 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.

*K. 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 – In general, fund balance represents the difference between assets/deferred outflows and liabilities/deferred inflows. 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 classifications 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., cemetery 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 Town's highest decision making authority (i.e., annual and special Town Meeting).
- 4) *Assigned funds* are used for specific purposes as established by management. These funds, which include general budgetary encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance 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.

#### L. 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 fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison 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)	\$ 48,719,308	\$ 45,523,311
Other financing sources/uses (GAAP basis)	<u>755,475</u>	<u>1,916,990</u>
Subtotal (GAAP Basis)	49,474,783	47,440,301
Adjust tax revenue to accrual basis	(645,360)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(359,577)
Add end-of-year appropriation carryforwards from expenditures	-	651,728
Record raising of prior year deficits	-	243,981
Record use of free cash	953,915	-
Reverse the effects of combining general fund and stabilization funds (GASB 54)	(7,437)	300,000
Other	<u>(61,099)</u>	<u>(61,099)</u>
Budgetary basis	<u>\$ 49,714,802</u>	<u>\$ 48,215,334</u>

**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2015:

Special revenue funds:	
Enhanced 911 grant	\$ (25,661)
Emergency medical dispatch grant	(9,871)
Other	(2,729)
Capital project funds:	
FY12 Capital Plan	(145,153)
Center Farm Acquisition	<u>(1,405,903)</u>
	<u>\$ (1,589,317)</u>

These deficits will be eliminated through future departmental and intergovernmental revenues and bond proceeds.

### 3. Cash and Short-Term Investments

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits Town deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's deposits do not exceed this limitation.

As of June 30, 2015, \$250,330 of the Town's bank balance of \$12,299,461 was 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 type of the Town.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>Baa1</u>
Certificates of deposits	\$ 911	N/A	\$ 911	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency securities	1,114	N/A	-	1,114	-	-	-	-
Corporate bonds	467	N/A	-	-	251	90	126	-
Mutual funds	<u>280</u>	N/A	<u>280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 2,772</u>		<u>\$ 1,191</u>	<u>\$ 1,114</u>	<u>\$ 251</u>	<u>\$ 90</u>	<u>\$ 126</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 investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by

the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

**C. Concentration of Credit Risk**

The Town places no limit on the amount the Town may invest in any one issuer. The Town did not hold investments in any one issuer (other than U.S. Federal Agency securities and FDIC-insured bank certificates of deposit) representing 5% or more of total investments at June 30, 2015.

**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:

<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>
Certificates of deposit	\$ 911	\$ 911	\$ -	\$ -
Federal agency securities	1,114	-	989	125
Corporate bonds	467	181	286	-
Total	<u>\$ 2,492</u>	<u>\$ 1,092</u>	<u>\$ 1,275</u>	<u>\$ 125</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.

As of June 30, 2015, the Town had no investments that were directly exposed to foreign currency risk.

**5. Notes Receivable**

This represents the balance due on a \$1,620,000 promissory note from Lynnfield Initiative for Elders, Inc. (LIFE), a non-profit corporation, for the deeding of real property from the Town to LIFE for the Colonial Village development.

## 6. Taxes Receivable

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

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

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

Real Estate		
2015	\$ 350,954	
Supplemental	<u>1,150</u>	
		352,104
Personal Property		
2015	5,665	
2014	424	
2013	1,157	
Prior	<u>1,618</u>	
		8,864
Tax Liens		151,625
Deferred Taxes		256,996
Taxes in Litigation		<u>5,027</u>
Total		<u>\$ 774,616</u>

## 7. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 84,790
Excises	\$ 53,760

## 8. User Fees Receivable

This balance represents charges billed for emergency medical services (net of estimated discounts and allowances).

## 9. Departmental and Other Receivables

This represents the remaining balance of the base price owed for the sale of Town owned land at 525 Salem Street as well as other miscellaneous receivables.

## 10. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

## 11. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 1,076	\$ -	\$ -	\$ 1,076
Buildings and improvements	87,305	11,978	-	99,283
Machinery, equipment, and furnishings	13,273	421	(269)	13,425
Infrastructure	9,672	466	-	10,138
Total capital assets, being depreciated	111,326	12,865	(269)	123,922
Less accumulated depreciation for:				
Land improvements	(678)	(38)	-	(716)
Buildings and improvements	(38,103)	(2,097)	-	(40,200)
Machinery, equipment, and furnishings	(11,090)	(592)	269	(11,413)
Infrastructure	(3,126)	(252)	-	(3,378)
Total accumulated depreciation	(52,997)	(2,979)	269	(55,707)
Total capital assets, being depreciated, net	58,329	9,886	-	68,215
Capital assets, not being depreciated:				
Land	6,362	1,406	-	7,768
Construction in progress	6,071	9	(5,975)	105
Total capital assets, not being depreciated	12,433	1,415	(5,975)	7,873
Governmental activities capital assets, net	\$ 70,762 <sup>1</sup>	\$ 11,301	\$ (5,975)	\$ 76,088

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 25	\$ -	\$ -	\$ 25
Buildings and improvements	482	-	-	482
Machinery, equipment, and furnishings	<u>852</u>	<u>-</u>	<u>(25)</u>	<u>827</u>
Total capital assets, being depreciated	1,359	-	(25)	1,334
Less accumulated depreciation for:				
Land improvements	(2)	(3)	-	(5)
Buildings and improvements	(107)	(12)	-	(119)
Machinery, equipment, and furnishings	<u>(543)</u>	<u>(79)</u>	<u>25</u>	<u>(597)</u>
Total accumulated depreciation	<u>(652)</u>	<u>(94)</u>	<u>25</u>	<u>(721)</u>
Total capital assets, being depreciated, net	707	(94)	-	613
Capital assets, not being depreciated:				
Land	12,587	-	-	12,587
Construction in progress	<u>-</u>	<u>159</u>	<u>-</u>	<u>159</u>
Total capital assets, not being depreciated	<u>12,587</u>	<u>159</u>	<u>-</u>	<u>12,746</u>
Business-type activities capital assets, net	<u>\$ 13,294</u> <sup>1</sup>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ 13,359</u>

<sup>1</sup> Restated from the prior year as described in Note 26.

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

<b>Governmental Activities:</b>	
General government	\$ 222
Public safety	238
Education	1,869
Public works	512
Health and human services	111
Culture and recreation	<u>27</u>
Total depreciation expense - governmental activities	<u>\$ 2,979</u>
<b>Business-Type Activities:</b>	
Golf Course	\$ 34
Emergency Medical Services	<u>60</u>
Total depreciation expense - business-type activities	<u>\$ 94</u>

**12. Warrants and Accounts Payable**

Warrants payable represent fiscal 2015 expenditures paid by July 15, 2015. Accounts payable represent additional fiscal 2015 expenditures paid after July 15, 2015.

**13. Accrued Liabilities**

Accrued liabilities consist of amounts accrued at June 30, 2015 for fiscal 2015 employee payrolls, as well as interest accrued on outstanding bonds.

**14. Notes Payable**

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/15</u>
Bond anticipation note	0.74%	06/19/15	06/17/16	\$ <u>2,377,971</u>
Total				\$ <u><u>2,377,971</u></u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation note	\$ 1,147,037	\$ -	\$ (1,147,037)	\$ -
Bond anticipation note	<u>-</u>	<u>2,377,971</u>	<u>-</u>	<u>2,377,971</u>
Total	\$ <u><u>1,147,037</u></u>	\$ <u><u>2,377,971</u></u>	\$ <u><u>(1,147,037)</u></u>	\$ <u><u>2,377,971</u></u>

**15. Other Current Liabilities**

This balance consists primarily of various employee payroll withholdings.

**16. Long-Term Debt**

**A. General Obligation Bonds**

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/15
<u>Governmental Activities:</u>			
Senior center van	06/15/18	1.30%	\$ 40,000
Septic (MWPAT)	08/01/18	0.00%	40,383
Fire truck	02/15/19	2.26%	224,000
FY07 capital plan	02/15/24	4.01%	295,000
Septic (MWPAT)	07/15/32	0.00%	180,269
Septic (MWPAT)	01/15/33	0.00%	227,556
School bonds	06/15/33	2.75%	2,305,000
Refunded senior center bonds	07/01/21	1.42%	790,000
Refunded school bonds	07/01/22	1.55%	4,715,000
Refunded school bonds	07/01/24	1.79%	5,635,000
Recreation	07/15/34	2.67%	4,467,000
Total Governmental Activities:			\$ <u>18,919,208</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/15
<u>Business-Type Activities:</u>			
Golf course purchase	02/15/25	4.01%	\$ 1,925,000
Golf course purchase	02/15/25	3.29%	5,081,000
Total Business-Type Activities:			\$ <u>7,006,000</u>

**B. Future Debt Service**

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,815,626	\$ 617,725	\$ 2,433,351
2017	1,798,641	557,779	2,356,420
2018	1,803,656	490,904	2,294,560
2019	1,788,669	424,464	2,213,133
2020	1,712,589	357,309	2,069,898
2021 - 2025	6,893,170	923,876	7,817,046
2026 - 2030	2,333,547	294,694	2,628,241
Thereafter	773,310	53,188	826,498
Total	\$ <u>18,919,208</u>	\$ <u>3,719,939</u>	\$ <u>22,639,147</u>



<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 579,000	\$ 250,194	\$ 829,194
2017	604,000	233,766	837,766
2018	629,000	215,573	844,573
2019	654,000	196,088	850,088
2020	675,000	174,668	849,668
2021 - 2025	<u>3,865,000</u>	<u>473,070</u>	<u>4,338,070</u>
Total	<u>\$ 7,006,000</u>	<u>\$ 1,543,359</u>	<u>\$ 8,549,359</u>

The general fund has been designated as the sole source to repay the governmental activities and business-type activities general obligation long-term debt outstanding as of June 30, 2015.

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

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

	Total Balance <u>7/1/14</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/15</u>	Less Current <u>Portion</u>	Equals Long-Term <u>Portion</u> <u>6/30/15</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 16,081	\$ 4,467	\$ (1,629)	\$ 18,919	\$ (1,816)	\$ 17,103
Other:						
Compensated absences	634	83	-	717	(234)	483
OPEB	21,427	5,892	(1,958)	25,361	-	25,361
Net pension liability	<u>26,826</u>	<u>-</u>	<u>(2)</u>	<u>26,824</u>	<u>-</u>	<u>26,824</u>
Totals	<u>\$ 64,968</u>	<u>\$ 10,442</u>	<u>\$ (3,589)</u>	<u>\$ 71,821</u>	<u>\$ (2,050)</u>	<u>\$ 69,771</u>
<u>Business-Type Activities</u>						
Bonds payable	<u>\$ 7,560</u>	<u>\$ -</u>	<u>\$ (554)</u>	<u>\$ 7,006</u>	<u>\$ (579)</u>	<u>\$ 6,427</u>
Totals	<u>\$ 7,560</u>	<u>\$ -</u>	<u>\$ (554)</u>	<u>\$ 7,006</u>	<u>\$ (579)</u>	<u>\$ 6,427</u>

**17. Deferred Inflows of Resources**

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

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

	Entity-wide Basis	Governmental Funds
	Governmental Activities	General Fund
Unavailable revenues	\$ 193,837	\$ 885,049
Net difference between projected and actual investment earnings on pension plan investments	113,622	-
Totals	\$ 307,459	\$ 885,049

## 18. 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.

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

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

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue and expendable trust funds, capital projects funded by borrowing and/or grants, 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, 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, and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned – Represents amounts that are available to spend in future periods. This fund balance classification includes general fund surplus fund balance, general and capital facility stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54 ), and various special revenue and capital project temporary deficit fund balances.

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

	General Fund	Sale of Real Estate	Center Farm Acquisition	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Nonexpendable permanent funds:						
Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 834,575	\$ 834,575
Library and other	-	-	-	-	32,400	32,400
Total Nonspendable	-	-	-	-	866,975	866,975
Restricted						
Special revenue funds:						
Sale of real estate	-	2,880,538	-	-	-	2,880,538
Betterment loan repayments	-	-	-	-	315,942	315,942
Other receipts reserved	-	-	-	-	118,588	118,588
Full day kindergarten	-	-	-	-	335,558	335,558
Community schools	-	-	-	-	363,359	363,359
Non-resident tuition	-	-	-	-	134,183	134,183
School lunch	-	-	-	-	107,276	107,276
COA activity	-	-	-	-	110,170	110,170
Recreation	-	-	-	-	108,252	108,252
Other revolving funds	-	-	-	-	290,437	290,437
Federal grants	-	-	-	-	40,423	40,423
State grants	-	-	-	-	144,471	144,471
Cable/PEG access	-	-	-	-	395,157	395,157
Library expansion gift	-	-	-	-	100,000	100,000
Other gifts and donations	-	-	-	-	109,172	109,172
Expendable trust funds:						
Conservation land	-	-	-	-	137,702	137,702
Other expendable trusts	-	-	-	-	3,963	3,963
Capital project funds						
MWPAT septic loan program	-	-	-	-	33,933	33,933
Senior center van	-	-	-	-	2,076	2,076
High school expansion	-	-	-	-	8,968	8,968
Outdoor recreation facilities	-	-	-	93,158	-	93,158
Expendable permanent funds	-	-	-	-	25,521	25,521
Total Restricted	-	2,880,538	-	93,158	2,885,151	5,858,847

(continued)

(continued)

	General Fund	Sale of Real Estate	Center Farm Acquisition	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Committed						
Article carryforwards	272,525	-	-	-	-	272,525
Total Committed	272,525	-	-	-	-	272,525
Assigned						
Encumbrances	379,203	-	-	-	-	379,203
Appropriated fund balance	150,000	-	-	-	-	150,000
Total Assigned	529,203	-	-	-	-	529,203
Unassigned						
General fund	3,922,274	-	-	-	-	3,922,274
General stabilization fund	1,136,601	-	-	-	-	1,136,601
Capital facilities fund	733,307	-	-	-	-	733,307
Special revenue fund deficits	-	-	-	-	(38,261)	(38,261)
Capital project fund deficits	-	-	(1,405,903)	-	(145,153)	(1,551,056)
Total Unassigned	5,792,182	-	(1,405,903)	-	(183,414)	4,202,865
Total Fund Balance	\$ 6,593,910	\$ 2,880,538	\$ (1,405,903)	\$ 93,158	\$ 3,568,712	\$ 11,730,415

## 20. 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 paragraph summarizes the major differences.

Massachusetts General Laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and are for the safety of the public. The most common example of such an over-expenditure involves the “snow and ice” appropriation. However, all such over-expenditures must be funded in the subsequent year’s tax rate.

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

GAAP basis balance	\$ 5,792,182
General stabilization fund	(1,136,601)
Capital facilities fund	(733,307)
Snow and ice deficit	265,432
Statutory (UMAS) Balance	\$ 4,187,706

## 21. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town’s management is of the opinion that the

potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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.

## **22. Post-Employment Healthcare Benefits**

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 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 them. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

### **A. Plan Description**

In addition to providing the pension benefits described in Note 23, the Town participates in a single-employer, defined benefit postretirement health insurance program to provide postretirement health insurance coverage to eligible retirees. Benefits, benefit levels, employee, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. All employees retiring from the Town who (a) are eligible for and in fact receive a retirement allowance in accordance with M.G.L. Chapter 32, through either the Massachusetts Teachers Retirement System (MTRS) or the Massachusetts State Employees Retirement System (MSERS) and (b) retire from the Town working 20 or more hours per week as an active Town employee (23.5 hours for teachers) are eligible to receive benefits. As of July 1, 2013, the most recent actuarial valuation date, approximately 310 active employees and 323 retirees met the eligibility requirements. The plan does not issue a separate financial report.

### **B. Benefits Provided**

The Town covers a portion of the premiums for eligible retirees under either individual or family medical coverage. The amount of the retirees' share towards medical coverage depends on the type of coverage selected. Effective June 7, 2011, the Town transferred subscribers of health coverage to

the Group Insurance Commission (GIC). The coverage under the GIC currently includes four types of medical coverage: HMO, PPO, Indemnity, and Medicare Supplemental Plans. Under each type of medical coverage there are numerous medical plans.

Effective July 1, 2011, the Town also offers retirees dental coverage with a retiree contribution rate of 100% of the premium. The retirees' dental plan is separate from the dental plan for active participants. Dental coverage is not valued in the Town's postretirement health insurance plan because the Town has no share of the premium cost and there is no implicit rate subsidy since the retirees have their own dental plan.

*C. Funding Policy*

The Town contributes 85% of the medical insurance premiums for eligible retirees under various HMO and Medicare plans, 75% under various PPO plans, and 50% under various Indemnity plans on a pay-as-you-go basis. Retirees contribute the remainder of their chosen health plan premium costs.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2015 Annual OPEB Cost (AOC) is calculated based on the employer's annual required contribution (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 AOC for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 6,273,817
Interest on net OPEB obligation	857,096
Adjustment to ARC	<u>(1,239,150)</u>
Annual OPEB cost	5,891,763
Contributions made	(1,594,572)
Allocation for implicit rate subsidy	<u>(363,235)</u>
Increase in net OPEB obligation	3,933,956
Net OPEB obligation - beginning of year	<u>21,427,416</u>
Net OPEB obligation - end of year	<u><u>\$ 25,361,372</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2015 fiscal year and the two preceding years 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>
2013	\$ 5,373,897	39.0%	\$ 17,449,284
2014	\$ 5,962,694	33.3%	\$ 21,427,416
2015	\$ 5,891,763	33.2%	\$ 25,361,372

The Town's net OPEB obligation as of June 30, 2015 is recorded as a noncurrent liability in the Statement of Net Position.

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 56,362,910
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 56,362,910</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.0%</u>
Covered payroll (active plan members)	<u>\$ 18,404,883</u>
UAAL as a percentage of covered payroll	<u>306.2%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the employer's annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to 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 July 1, 2013 actuarial valuation, the Town's ARC was determined using the Projected Unit Credit funding method (with service proration). Under this funding method, projected benefits are assumed to accrue on a straight line basis from date of hire to expected retirement date for each participant. The actuarial value of assets is equal to the market value of the plan's assets. Other actuarial assumptions included a 4.0% discount rate and an initial health care cost trend rate of 8.0% per year graded off 0.5% per year to an ultimate rate of 5.0% per year. The Unfunded Actuarial Accrued Liability (UAAL) is amortized over 30 or fewer years and the 30-year level dollar amortization is presumed to be established on an open amortization basis, where the amortization period is reset each year to be 30 years.

**G. Other Post-Employment Benefits Liability Trust Fund**

In October 2013, the Town voted to accept the provisions of M.G.L. Chapter 32B, Section 20 to establish an Other Post-Employment Benefits Liability Trust Fund (OPEB Trust) to begin accumulating assets to reduce the unfunded portion of its actuarially accrued OPEB liability. However, because the OPEB Trust was established and funded after the date of the most recent actuarial valuation, OPEB Trust assets are not reflected in the actuarial value of assets reported in the Schedule of Funding Progress.

As of June 30, 2015, total assets in the OPEB Trust were \$200,373. OPEB Trust assets and activity are reported in the Fiduciary Funds financial statements on pages 22-23 of this report.

**23. Essex Regional Retirement System**

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

**A. Plan Description**

Substantially all Town employees (except teachers and administrators under contract employed by the School Department) are members of the Essex Regional Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System, which provides pension benefits, deferred allowances, and death and disability benefits. The System's authority is



established by Chapter 32 of the Massachusetts General Laws, which also govern contribution percentages and benefits paid. The System's Board of Directors does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publically available from the System's administrative offices located at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025. Reports are also available on the System's website at [www.essexregional.com](http://www.essexregional.com).

*B. Benefits Provided*

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of creditable service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service; (2) was on the Town's payroll on January 1, 1978; (3) voluntarily left Town employment on or after that date; and (4) left accumulated annuity deductions in the plan.

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

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

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

C. Contributions

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

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$2,118,002, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, the Town reported a liability of \$ 26,824,501 for its proportionate share of the System's net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2014, the Town's proportion was 7.907%.

For the year ended June 30, 2015, the Town recognized pension expense of \$2,230,071. In addition, the Town reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 113,622
Total	\$ 113,622

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

Year ended June 30:

2016	\$ 28,406
2017	28,406
2018	28,406
2019	28,404
Total	\$ 113,622

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

COLA	3% of the first \$13,000
Salary increases	Select and ultimate:
	Year 1 7.50%
	Year 2 6.50%
	Year 3 6.00%
	Year 4 5.50%
	Year 5 5.00%
	Thereafter 3.75%
Investment rate of return	8.00%

Mortality rates were based on the RP-2000 mortality table (sex-distinct, healthy employees for actives and healthy annuitants for retirees) projected with scale BB and Generational Mortality. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality is the healthy retiree table ages set forward 2 years.

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 major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding an expected inflation rate of 3.00%. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Core bonds	13.00%	0.97%
Value-added bonds	10.00%	3.80%
Large cap equities	14.50%	4.61%
Mid/small cap equities	3.50%	4.85%
International equities	16.00%	5.10%
Emerging market equities	6.00%	6.31%
Private equity	10.00%	6.55%
Real estate	10.00%	3.40%
Timber/natural resources	4.00%	3.64%
Hedge funds	9.00%	3.64%
Cash/portfolio completion	4.00%	0.00%
Total	<u>100.00%</u>	<u>42.87%</u>

**Discount Rate:** The discount rate used to measure the total pension liability was 8.00%. 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 rates equal to the actuarially determined contribution rates. 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 8.00%, 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 per-

centage-point lower (7.00%) or 1 percentage-point higher (9.00%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
June 30, 2015	\$ 32,990,389	\$ 26,824,501	\$ 21,863,111

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

## 24. **Massachusetts Teachers' Retirement System (MTRS)**

### A. Plan Description

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

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

### B. Benefits Provided

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

age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the State 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.

MTRS funding policies have been established by Chapter 32 of the MGL and the State 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 to MTRS vary depending on the most recent date of membership:

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

#### D. Actuarial Assumptions

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

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
  - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
  - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.00%	7.20%	7.70%
Core fixed income	13.00%	2.50%	2.00%
Hedge funds	10.00%	5.50%	4.75%
Private equity	10.00%	8.80%	9.00%
Real estate	10.00%	6.30%	6.00%
Value added fixed income	10.00%	6.30%	6.30%
Timeber/natural resources	4.00%	5.00%	5.00%
Total	<u>100.00%</u>		

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return

on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Sensitivity Analysis**

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,427,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

**G. Commonwealth Proportions Associated with Town**

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense associated with the Town was \$40,015,290 and \$2,780,054 respectively, based on a proportionate share of 0.251726%. 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.

**H. Special Funding Situation**

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially 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 Statements 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.

**25. 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.



## 26. Beginning Net Position/Beginning Fund Balances Restatement

The beginning (July 1, 2014) net position and fund balances of the Town have been restated as follows:

### Government-Wide Financial Statements:

	Governmental Activities	Business- Type Activities	Total
As previously reported	\$ 43,067,644	\$ 5,635,027	\$ 48,702,671
GASB 68 Implementation	(26,826,054)	-	(26,826,054)
Reclassify Emergency Medical Services	<u>(401,451)</u>	<u>401,451</u>	<u>-</u>
As restated	\$ <u>15,840,139</u>	\$ <u>6,036,478</u>	\$ <u>21,876,617</u>

### Fund Basis Financial Statements:

	General Fund	Emergency Medical Services	Sale of Real Estate	FY12 Capital Plan	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total
As previously reported	\$ 4,559,428	\$ 41,995	\$ 525,548	\$ (1,112,171)	\$ 1,449,113	\$ 3,389,030	\$ 8,852,943
Reclassify Emergency Medical Services	-	(41,995)	-	-	-	-	(41,995)
Reclassify FY12 Capital Plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,112,171</u>	<u>-</u>	<u>(1,112,171)</u>	<u>-</u>
As restated	\$ <u>4,559,428</u>	\$ <u>-</u>	\$ <u>525,548</u>	\$ <u>-</u>	\$ <u>1,449,113</u>	\$ <u>2,276,859</u>	\$ <u>8,810,948</u>

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

**June 30, 2015**

**(Unaudited)**

**(Amounts Expressed in thousands)**

<b>Other Post-Employment Benefits</b>						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/07	\$ -	\$ 48,698	\$ 48,698	0.0%	\$ 13,370	364.2%
07/01/09	\$ -	\$ 46,995	\$ 46,995	0.0%	\$ 16,465	285.4%
07/01/11	\$ -	\$ 52,150	\$ 52,150	0.0%	\$ 16,200	321.9%
07/01/13	\$ -	\$ 56,363	\$ 56,363	0.0%	\$ 18,405	306.2%

See Independent Auditors' Report.

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

<u>Essex Regional Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	7.907%
Town's proportionate share of the net pension liability for the most recent measurement date	\$ 26,824,501
Covered-employee payroll for the most recent measurement date	\$ 9,568,326
Proportionate share of the net pension liability as a percentage of covered-employee payroll	280.35%
Plan fiduciary net position as a percentage of the total pension liability	52.27%
 <u>Massachusetts Teachers' Retirement System</u>	 <u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.251726%
Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' proportionate share of the total net pension liability associated with the Town	<u>40,015,290</u>
Total net pension liability associated with the Town	<u>\$ 40,015,290</u>
Covered-employee payroll for the most recent measurement date	\$ 15,439,861
Proportionate share of the net pension liability as a percentage of covered-employee payroll	259.17%
Plan fiduciary net position as a percentage of the total pension liability	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 LYNNFIELD, MASSACHUSETTS**

**SCHEDULE OF CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015  
(Unaudited)**

<u>Essex Regional Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 2,118,002
Contributions in relation to the contractually required contribution	<u>2,118,002</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 9,568,326
Contributions as a percentage of covered-employee payroll	22.14%

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See Independent Auditors' Report.