

**TOWN OF ROYALSTON, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2015

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Selectboard  
Town of Royalston, Massachusetts

We were engaged to audit the accompanying financial statements of each major fund and the aggregate remaining fund information of the Town of Royalston, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise a portion of 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **Basis for Disclaimer of Opinion**

The lack of reconciliation between the Treasurer and general ledger resulted in a material misstatement in cash. As of the date of our audit report, management was still in the process of reconciling and correcting the misstatements. We were unable to confirm or verify, by performing other audit procedures, the total cash balance of \$1,709,607 reported in the accompanying financial statements at June 30, 2015. As a result of these matters, and due to the integral effect of cash transactions on all financial elements, we were unable to determine whether any adjustments might have been found necessary in respect of other account balances reported on the balance sheet, and the statements of revenues, expenditures, and changes in fund balance for governmental funds.

## **Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

The Town has not presented the Management's Discussion and Analysis or Schedule of OPEB Funding Progress that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

We have applied certain limited procedures to the other required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited

procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 17, 2017

TOWN OF ROYALSTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>Chapter 90 Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 591,155	\$ -	\$ 488,741	\$ 629,711	\$ 1,709,607
Receivables:					
Property taxes	843,977	-	-	-	843,977
Excises	68,601	-	-	-	68,601
User fees	52,559	-	-	-	52,559
Intergovernmental	-	41,265	-	4,435	45,700
Loans	-	-	-	10,244	10,244
Due from other funds	110,925	-	-	-	110,925
<b>TOTAL ASSETS</b>	<b><u>\$ 1,667,217</u></b>	<b><u>\$ 41,265</u></b>	<b><u>\$ 488,741</u></b>	<b><u>\$ 644,390</u></b>	<b><u>\$ 2,841,613</u></b>
<b>LIABILITIES</b>					
Warrants payable	\$ 76,361	\$ 43,326	\$ 5,030	\$ 10,666	\$ 135,383
Accounts payable	-	-	193,710	-	193,710
Accrued payroll and withholdings	13,983	-	-	-	13,983
Due to other funds	-	107,208	-	-	107,208
Notes payable	-	-	1,564,500	-	1,564,500
Other liabilities	1,511	-	-	-	1,511
<b>TOTAL LIABILITIES</b>	<b>91,855</b>	<b>150,534</b>	<b>1,763,240</b>	<b>10,666</b>	<b>2,016,295</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>965,137</b>	<b>-</b>	<b>-</b>	<b>10,244</b>	<b>975,381</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	130,697	130,697
Restricted	-	-	-	335,707	335,707
Committed	132,850	-	-	157,076	289,926
Assigned	8,908	-	-	-	8,908
Unassigned	468,467	(109,269)	(1,274,499)	-	(915,301)
<b>TOTAL FUND BALANCES</b>	<b><u>610,225</u></b>	<b><u>(109,269)</u></b>	<b><u>(1,274,499)</u></b>	<b><u>623,480</u></b>	<b><u>(150,063)</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 1,667,217</u></b>	<b><u>\$ 41,265</u></b>	<b><u>\$ 488,741</u></b>	<b><u>\$ 644,390</u></b>	<b><u>\$ 2,841,613</u></b>

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

TOWN OF ROYALSTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Chapter 90 Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 1,543,719	\$ -	\$ -	\$ -	\$ 1,543,719
Excises	139,527	-	-	-	139,527
Penalties, interest and other taxes	34,775	-	-	17,054	51,829
Charges for services	98,607	-	-	31,536	130,143
Intergovernmental	250,454	343,747	-	175,054	769,255
Licenses and permits	10,212	-	-	-	10,212
Fines and forfeitures	7,975	-	-	-	7,975
Investment income	427	-	-	575	1,002
Miscellaneous	14,561	-	-	14,208	28,769
	<u>2,100,257</u>	<u>343,747</u>	<u>-</u>	<u>238,427</u>	<u>2,682,431</u>
<b>Total Revenues</b>					
<b>Expenditures:</b>					
Current:					
General government	218,399	-	-	34,281	252,680
Public safety	297,523	-	-	132,835	430,358
Education	607,605	-	-	200	607,805
Public works	656,657	455,266	1,137,223	20,551	2,269,697
Health and human services	72,683	-	-	8,362	81,045
Culture and recreation	53,581	-	-	9,366	62,947
Employee benefits	131,532	-	-	-	131,532
Debt service	2,000	-	-	-	2,000
Intergovernmental	13,567	-	-	-	13,567
	<u>2,053,547</u>	<u>455,266</u>	<u>1,137,223</u>	<u>205,595</u>	<u>3,851,631</u>
<b>Total Expenditures</b>					
Excess (deficiency) of revenues over expenditures	46,710	(111,519)	(1,137,223)	32,832	(1,169,200)
<b>Other Financing Sources (Uses):</b>					
Transfers in	1,189	-	-	3,179	4,368
Transfers out	(3,179)	-	-	(1,189)	(4,368)
	<u>(1,990)</u>	<u>-</u>	<u>-</u>	<u>1,990</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>					
Change in fund balance	44,720	(111,519)	(1,137,223)	34,822	(1,169,200)
Fund Equity, at Beginning of Year	565,505	2,250	(137,276)	588,658	1,019,137
Fund Equity, at End of Year	<u>\$ 610,225</u>	<u>\$ (109,269)</u>	<u>\$ (1,274,499)</u>	<u>\$ 623,480</u>	<u>\$ (150,063)</u>

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

TOWN OF ROYALSTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Transfers In:</b>				
Property taxes	\$ 1,544,984	\$ 1,544,984	\$ 1,544,984	\$ -
Excises	132,500	132,500	139,527	7,027
Penalties, interest and other taxes	31,500	31,500	34,775	3,275
Charges for services	99,260	99,260	98,607	(653)
Intergovernmental	256,919	256,919	250,454	(6,465)
Licenses and permits	10,000	10,000	10,212	212
Fines and forfeitures	13,500	13,500	7,975	(5,525)
Investment income	200	200	-	(200)
Miscellaneous	-	-	14,561	14,561
Transfers in	4,300	95,489	95,489	-
Total Revenues and Transfers In	2,093,163	2,184,352	2,196,584	12,232
<b>Expenditures and Transfers Out:</b>				
General government	245,768	209,481	205,241	4,240
Public safety	309,625	303,534	299,388	4,146
Education	608,048	608,048	607,605	443
Public works	560,720	647,209	648,494	(1,285)
Health and human services	83,584	75,082	72,683	2,399
Culture and recreation	53,954	53,854	53,581	273
Employee benefits	160,507	136,302	131,532	4,770
Debt service	2,000	2,000	2,000	-
Intergovernmental	13,567	13,567	13,567	-
Transfers out	58,569	138,454	138,454	-
Total Expenditures and Transfers Out	2,096,342	2,187,531	2,172,545	14,986
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(3,179)	(3,179)	24,039	(2,754)
<b>Other Financing Sources:</b>				
Other sources	3,179	3,179	3,179	-
Total Other Financing Sources	3,179	3,179	3,179	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 27,218	\$ (2,754)

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

TOWN OF ROYALSTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Departmental receivables	\$ <u>17,377</u>
Total Assets	\$ <u><u>17,377</u></u>
<b><u>LIABILITIES</u></b>	
Warrants payable	\$ 900
Due to other funds	3,717
Other liabilities	<u>12,760</u>
Total Liabilities	\$ <u><u>17,377</u></u>

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

## Town of Royalston, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Royalston (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. 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. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements have not been presented.

###### Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

###### Government-Wide Financial Statements

The government-wide financial statements have not been presented.

###### 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 *Chapter 90 fund*, which accounts for operations related to the Town's Chapter 90 (highway grant) funds received from the State.
- The *capital project fund* is used to account for the wastewater treatment plant capital project activity.

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

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

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

Deposits with financial institutions consist primarily of demand 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.

#### E. Property Tax Limitations

Legislation known as "Proposition 2 ½" 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 \$767.

#### F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans).

#### G. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current 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 classification policies and procedures are as follows:

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

#### H. 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. Departures from Generally Accepted Accounting Principles**

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Town's governmental activities has not been determined.
- Management has not presented the management's discussion and analysis or Schedule of OPEB Funding Progress that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

### **3. 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.

Formal budgetary integration is employed as a management control device during the year for the general fund.

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

**B. Budgetary Basis**

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

**C. Budget/GAAP Reconciliation**

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 2,100,257	\$ 2,053,547
Other financing sources/uses (GAAP basis)	<u>1,189</u>	<u>3,179</u>
Subtotal (GAAP basis)	2,101,446	2,056,726
Remove the effect of adding the Stabilization fund to General fund per GASB 54	93,873	135,275
Adjust tax revenue to accrual basis	1,265	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(158,214)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>138,758</u>
Budgetary basis	<u>\$ 2,196,584</u>	<u>\$ 2,172,545</u>

*D. Deficit Fund Equity*

The following funds had deficit balances as of June 30, 2015:

Chapter 90	\$(109,269)
Capital project fund	\$(1,274,499)

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

**4. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Law Chapter 44, section 55, limits 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 does not have a deposit policy for custodial credit risk.

As of June 30, 2015, \$58,722 of the Town's bank balance of \$1,937,360 was exposed to custodial credit risk as uninsured, and/or uncollateralized.

**5. Taxes Receivable**

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

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

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

Real Estate		
2015	\$ 118,541	
2014	27,719	
Prior years	<u>109,291</u>	255,551
Personal Property		
2015	3,993	
Prior years	<u>28,835</u>	<u>32,828</u>
Subtotal current property taxes		288,379
Tax Liens		<u>555,598</u>
Total		<u>\$ 843,977</u>

**6. Intergovernmental Receivables**

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

**7. Loan Receivables**

The balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

**8. Interfund Fund Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2015 balances in interfund receivable and payable accounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 110,925	\$ -
Chapter 90 fund	-	107,208
Agency fund	<u>-</u>	<u>3,717</u>
Total	<u>\$ 110,925</u>	<u>\$ 110,925</u>

**9. Warrants and Accounts Payable**

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

**10. Anticipation Notes Payable**

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

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2015</u>
Anticipation serial loan	0.55%	12/16/14	11/24/15	\$ 800,000
Anticipation serial loan	0.50%	2/6/15	11/24/15	<u>764,500</u>
				<u>\$ 1,564,500</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>
Anticipation serial loans	\$ <u>250,000</u>	\$ <u>1,564,500</u>	\$ <u>(250,000)</u>	\$ <u>1,564,500</u>
Total	\$ <u>250,000</u>	\$ <u>1,564,500</u>	\$ <u>(250,000)</u>	\$ <u>1,564,500</u>

**11. Deferred Inflows of Resources**

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

The deferred inflow of resources balance as of June 30, 2015 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred revenues account is equal to the total of all June 30, 2015 receivable balances, less property taxes collected within 60 days of year end.

**12. Long-Term Debt**

**A. Overlapping Debt**

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the

payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
<u>Athol-Royalston Regional School District:</u>			
Royalston School Building	\$ 173,283	37.88%	\$ 65,640
Deficit Bond	<u>127,000</u>	6.31%	<u>8,014</u>
Total	<u>\$ 300,283</u>		<u>\$ 73,653</u>

### 13. **Capital Lease Obligations**

The Town is a lessee of public safety equipment under capital leases expiring in various years through 2021. Future minimum lease payments under the capital leases consist of the following as of June 30, 2015:

2016	\$ 74,459
2017	74,459
2018	65,295
2019	65,295
2020	65,295
Thereafter	<u>65,295</u>
Total minimum lease payments	410,098
Less amounts representing interest	<u>(45,534)</u>
Present Value of Minimum Lease Payments	<u>\$ 364,564</u>

### 14. **Worcester Regional Retirement System**

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

#### A. Plan Description

Substantially all employees of the Town are members of the Worcester Regional Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees

must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 28 Midstate Drive, Suite 106, Auburn, MA 01501.

*B. Benefits Provided*

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five year average for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 50 for groups 1 and 2, respectively. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

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

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

credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

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

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

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 \$25,333, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, had the Town issued government-wide financial statements, the Town would have reported a liability of \$381,458 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014, rolled forward to December 31, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.064 percent.

For the year ended June 30, 2015, had the Town reported this liability in the accompanying financial statements, the Town's pension expense would have been \$34,127. In addition, the Town would have reported deferred outflows of resources from the net difference between projected and actual earnings on pension plan investments of \$229.

Amounts reported as deferred outflows of resources related to pensions would be amortized to pension expense at a rate of \$46 per year.

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

Inflation	Not explicitly assumed
Salary increases	3% per year
Investment rate of return	8.0%

Mortality rates were based on the RP-2000 Mortality Table Projected to 2014 with Scale AA. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2012 through December 31, 2013.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	43%	8.23%
Fixed income	23%	5.05%
Private equity	10%	9.75%
Real estate	10%	6.50%
Timber/natural resources	4%	6.88%
Hedge funds	10%	7.00%
Total	<u>100%</u>	

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

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6%) or 1 percentage-point higher (9%) than the current rate:

Fiscal Year Ended	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
June 30, 2015	\$464,439	\$381,458	\$310,991

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

**15. 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 classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

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

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

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 surplus to be used in the subsequent year's budget and fund balance voted to be used in the subsequent fiscal year.

Unassigned - Represents amounts that are available to be spent in future periods and deficit fund balances.

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

	General Fund	Chapter 90 Fund	Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 130,697	\$ 130,697
Total Nonspendable	-	-	-	130,697	130,697
Restricted					
Special revenue funds	-	-	-	248,669	248,669
Expendable permanent funds	-	-	-	87,038	87,038
Total Restricted	-	-	-	335,707	335,707
Committed					
Special article balances	132,850	-	-	-	132,850
Town set-asides	-	-	-	15,857	15,857
Community preservation fund	-	-	-	141,219	141,219
Total Committed	132,850	-	-	157,076	289,926
Assigned					
Encumbrances	5,908	-	-	-	5,908
Reserved for expenditures	3,000	-	-	-	3,000
Total Assigned	8,908	-	-	-	8,908
Unassigned					
General fund	301,720	-	-	-	301,720
Stabilization fund	166,747	-	-	-	166,747
Deficit fund balances	-	(109,269)	(1,274,499)	-	(1,383,768)
Total Unassigned	468,467	(109,269)	(1,274,499)	-	(915,301)
Total Fund Balance	\$ 610,225	\$ (109,269)	\$ (1,274,499)	\$ 623,480	\$ (150,063)

**16. Interfund Fund Transfers**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund transfers must be utilized.

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

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 1,189	\$ 3,179
Nonmajor funds:		
Special revenue funds	<u>3,179</u>	<u>1,189</u>
Grand Total	<u>\$ 4,368</u>	<u>\$ 4,368</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

**17. Subsequent Events**

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

	<u>Amount</u>	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Anticipation serial loan	\$ 1,555,500	0.75%	11/24/15	02/24/16

	<u>Amount</u>	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>
USDA loan	\$ 1,147,000	1.875%	02/23/16	02/23/52

**18. Commitments and Contingencies**

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

**19. Risk Management**

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

TOWN OF ROYALSTON, MASSACHUSETTS  
SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

(Amounts expressed in thousands)

(Unaudited)

<u>Worcester Regional Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.064%
Proportionate share of the net pension liability for the most recent measurement date	\$ 381
Covered payroll for the most recent measurement date	\$ 243
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	156.8%
Plan fiduciary net position as a percentage of the total pension liability	47.94%

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

See Independent Auditors' Report.

TOWN OF ROYALSTON, MASSACHUSETTS  
 SCHEDULE OF CONTRIBUTIONS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (Amounts expressed in thousands)  
 (Unaudited)

<u>Worcester Regional Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 25
Contributions in relation to the contractually required contribution	<u>(25)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll for the current fiscal year	\$ 243
Contributions as a percentage of covered payroll	10.3%

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

See Independent Auditors' Report.