

TOWN OF WINCHESTER, MASSACHUSETTS
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

**TOWN OF WINCHESTER, MASSACHUSETTS
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YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Selectmen
Town of Winchester, Massachusetts

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously 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 Winchester, Massachusetts, as of June 30, 2016 (except for the Winchester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2015), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 73 through 80) 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 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 December 1, 2016 on our consideration of the Town of Winchester, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Winchester, Massachusetts' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, MA
December 1, 2016

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

As management of the Town of Winchester, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$151,068,602 (net position).
- The Town's total net position increased \$19,499,300.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$11,651,895, or 12.4% of total general fund expenditures and transfers out.
- The Town's total outstanding bonded debt increased by \$50,121,552 during the fiscal year. The Town issued/recognized new debt of \$51,579,285, retired \$5,718,360 of existing debt during the fiscal year and had \$4,260,627 of unamortized bond premiums. Of the new debt issued/recognized, \$49,969,285 is for the High School construction project, which is excluded from the provisions of Proposition 2^{1/2}.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains required supplementary information in addition to the basic financial statements, consisting of the following:

1. General Fund – schedule of revenues, expenditures and changes in fund balance – non-GAAP budgetary basis - budget and actual
2. Pension plan schedules
3. Other post employment benefits schedule

Government-wide financial statements

The government-wide and enterprise fund financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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

Both of the government-wide financial statements distinguish functions of the Town 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*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's water/sewer activities and recreation activities.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 expendable resources, as well as on balances of expendable 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 effect 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.

The Town maintains over 300 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, school construction (capital projects) and Wright/Locke Farm purchase (capital projects) funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The governmental funds basic financial statements can be found on pages 15-20 of this report.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Proprietary funds

The Town maintains one type of proprietary fund representing the Town's enterprise funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water/sewer activities and recreation activities.

The proprietary funds basic financial statements can be found on pages 21-23 of this report.

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 programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the Town's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The fiduciary funds basic financial statements can be found on pages 24-25 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 26-71 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the general fund schedule of revenues, expenditures and changes in fund balance (budget and actual) and certain pension and other post employment benefits information, which can be found on pages 73-80.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position was \$151,068,602 at the close of the fiscal year and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets.....	\$ 68,595,286	\$ 38,084,412	\$ 5,771,768	\$ 5,233,428	\$ 74,367,054	\$ 43,317,840
Noncurrent assets						
excluding capital assets).....	9,277,373	23,343,506	-	-	9,277,373	23,343,506
Capital assets (net).....	262,124,090	210,178,636	20,743,738	19,493,638	282,867,828	229,672,274
Total assets.....	339,996,749	271,606,554	26,515,506	24,727,066	366,512,255	296,333,620
Deferred outflows of resources.....	13,182,371	-	496,189	-	13,678,560	-
Liabilities						
Current liabilities						
(excluding debt).....	13,598,293	10,302,197	262,817	309,932	13,861,110	10,612,129
Noncurrent liabilities						
(excluding debt).....	60,109,638	49,433,016	2,427,809	1,806,503	62,537,447	51,239,519
Current debt.....	11,256,926	13,278,301	1,053,915	1,040,059	12,310,841	14,318,360
Noncurrent debt.....	130,156,399	81,388,413	7,585,754	7,029,669	137,742,153	88,418,082
Total liabilities.....	215,121,256	154,401,927	11,330,295	10,186,163	226,451,551	164,588,090
Deferred inflows of resources.....	2,573,191	169,221	97,471	7,007	2,670,662	176,228
Net Position						
Net investment in capital assets.....	154,606,813	133,498,790	13,478,177	13,542,629	168,084,990	147,041,419
Restricted.....	17,258,898	13,008,974	-	-	17,258,898	13,008,974
Unrestricted.....	(36,381,038)	(29,472,358)	2,105,752	991,267	(34,275,286)	(28,481,091)
Total net position.....	\$ 135,484,673	\$ 117,035,406	\$ 15,583,929	\$ 14,533,896	\$ 151,068,602	\$ 131,569,302

The largest portion of the Town's net position (\$168,084,990) reflects its net investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (\$17,258,898) represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position in the business-type activities of \$2,105,752 may be used to meet the Town's on-going obligations to citizens and creditors for the Town's water/sewer activities. The Town has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of net pension and post retirement benefit liabilities.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Changes in Net position

For the fiscal year ended June 30, 2016, the Town's total net position increased \$19,499,300, compared to an increase of \$8,671,648 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2016	2015	2016	2015	2016	2015
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 9,374,318	\$ 8,701,881	\$ 7,486,004	\$ 6,738,600	\$ 16,860,322	\$ 15,440,481
Operating grants and contributions.....	20,115,950	17,476,040	7,318	4,857	20,123,268	17,480,897
Capital grants and contributions.....	21,177,559	12,060,111	-	503,250	21,177,559	12,563,361
<i>General Revenues:</i>						
Real estate and personal property taxes.....	76,790,018	74,242,320	-	-	76,790,018	74,242,320
Motor vehicle and other excise taxes.....	3,707,557	3,528,344	-	-	3,707,557	3,528,344
Penalties and interest on taxes.....	273,214	275,047	-	-	273,214	275,047
Payments in lieu of taxes.....	89,647	69,134	-	-	89,647	69,134
Grants and contributions not restricted to specific programs.....	1,693,428	1,806,508	-	-	1,693,428	1,806,508
Unrestricted investment income.....	233,307	191,196	-	-	233,307	191,196
Total revenues.....	133,454,998	118,350,581	7,493,322	7,246,707	140,948,320	125,597,288
Expenses						
General government.....	7,895,502	7,648,738	-	-	7,895,502	7,648,738
Public safety.....	13,951,990	13,146,703	-	-	13,951,990	13,146,703
Education.....	69,492,855	70,237,864	-	-	69,492,855	70,237,864
Public works.....	10,774,453	9,837,881	-	-	10,774,453	9,837,881
Health and human services.....	1,541,980	1,540,077	-	-	1,541,980	1,540,077
Culture and recreation.....	2,788,201	2,667,403	-	-	2,788,201	2,667,403
Debt service - interest.....	4,376,396	2,017,124	-	-	4,376,396	2,017,124
Water/Sewer.....	-	-	8,108,174	8,113,002	8,108,174	8,113,002
Recreation.....	-	-	1,769,469	1,716,848	1,769,469	1,716,848
Total expenses.....	110,821,377	107,095,790	9,877,643	9,829,850	120,699,020	116,925,640
Change in net assets before transfers.....	22,633,621	11,254,791	(2,384,321)	(2,583,143)	20,249,300	8,671,648
Transfers, net.....	(3,434,354)	(3,598,688)	3,434,354	3,598,688	-	-
<i>Special Item - Loss on sale of asset held for resale.....</i>	<i>(750,000)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(750,000)</i>	<i>-</i>
Change in net position.....	18,449,267	7,656,103	1,050,033	1,015,545	19,499,300	8,671,648
Net position - beginning of year.....	117,035,406	109,379,303	14,533,896	13,518,351	131,569,302	122,897,654
Net position - end of year.....	\$ 135,484,673	\$ 117,035,406	\$ 15,583,929	\$ 14,533,896	\$ 151,068,602	\$ 131,569,302

Governmental activities increased the Town's net position by \$18,449,267. In the prior year, governmental activities increased the Town's net position by \$7,656,103. The key element of this change is an increase in capital grants and contributions of approximately \$9,100,000, primarily from reimbursement grants related to the High School construction project.

Business-type activities increased the Town's net position by \$1,050,033. This is consistent with the prior year increase of \$1,015,545.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Fund Financial Statement Analysis

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$59,467,871, an increase of \$35,753,676 in comparison with the prior year. \$9,783,953 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable - \$2,409,228
- Restricted - \$37,983,372
- Committed - \$8,128,757
- Assigned - \$1,162,561

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$11,651,895, while total fund balance was \$27,129,666. 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 and transfers out. Unassigned fund balance represents 12.4% of total general fund expenditures and transfers out, while total fund balance represents 28.8% of that same amount.

The fund balance of the Town's general fund increased \$7,353,093 during fiscal year 2016. The Town recognized a positive budget to actual variance (excluding encumbrances and continuing appropriations) totaling approximately \$10,963,000; and used approximately \$4,299,000 of reserves to fund the fiscal year 2016 budget.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the school construction fund (capital projects) increased \$21,740,530 during the current fiscal year. The fund recognized \$20,691,950 of intergovernmental revenues and \$49,969,285 of bond and note proceeds. Expenditures totaled \$48,920,705.

The fund balance of the Wright/Locke Farm purchase capital projects fund (major fund) increased \$8,200,000 during the current fiscal year resulting from the sale of the asset. The fund deficit at the end of the year totaled \$400,000.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water/sewer enterprise fund at the end of the year amounted to \$2,338,702. The water/sewer enterprise fund had an increase in net position for the year of \$966,958. Unrestricted net position of the recreation enterprise fund at the end of the year amounted to a deficit of \$232,950. The recreation enterprise fund had an increase in net position for the year of \$83,075. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budgeted expenditures (including transfers out) totaled \$100,226,165. During the year, supplemental appropriations totaling \$2,106,023 were authorized. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Capital articles.....	\$ 1,087,800	Fund transfers
Capital articles.....	460,000	Unassigned fund balance
Energy.....	185,000	Unassigned fund balance
Transfer to building stabilization.....	147,908	Unassigned fund balance
Debt service interest.....	89,153	Tax levy
Vocational school asesment.....	51,000	Unassigned fund balance
Town manager expenses.....	50,000	Unassigned fund balance
Transfer to recreation enterprise.....	47,288	Unassigned fund balance
Snow and ice.....	32,441	Unassigned fund balance
Town manager expenses.....	25,000	Fund transfers
Transfer station expenses.....	25,000	Unassigned fund balance
Debt service interest.....	1,770	Unassigned fund balance
Transfer to water/sewer enterprise.....	<u>(96,337)</u>	Unassigned fund balance
Total increase.....	<u>\$ 2,106,023</u>	

During the year, revenues and other financing sources and uses exceeded budgetary estimates and expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive budget to actual variance totaling approximately \$8,031,000. Encumbrances and continuing appropriations total approximately \$2,932,000 at year-end.

Capital Assets and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business-type activities at the end of the fiscal year totaled \$282,867,828 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The total net increase in the investment in capital assets for the current fiscal year was \$53,195,554 (23.2%).

Major capital asset events that occurred during the current fiscal year include the following:

- High School construction in progress (approximately \$50,163,000)
- Water/Sewer infrastructure construction in progress (approximately \$1,630,000)

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land.....	\$ 64,731,516	\$ 60,081,516	\$ -	\$ -	\$ 64,731,516	\$ 60,081,516
Land improvements.....	6,488,149	6,642,228	1,279,290	1,362,392	7,767,439	8,004,620
Buildings and improvements.....	92,714,868	95,120,876	4,514,206	4,665,067	97,229,074	99,785,943
Machinery and equipment.....	1,648,279	1,871,215	445,724	508,549	2,094,003	2,379,764
Vehicles.....	1,199,718	1,326,946	46,571	65,213	1,246,289	1,392,159
Infrastructure.....	8,427,561	8,804,999	11,629,598	11,600,652	20,057,159	20,405,651
Construction in progress.....	<u>86,913,999</u>	<u>36,330,856</u>	<u>2,828,349</u>	<u>1,291,765</u>	<u>89,742,348</u>	<u>37,622,621</u>
Total capital assets.....	\$ <u>262,124,090</u>	\$ <u>210,178,636</u>	\$ <u>20,743,738</u>	\$ <u>19,493,638</u>	\$ <u>282,867,828</u>	\$ <u>229,672,274</u>

Additional information on the Town's capital assets can be found in Note 5 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$144,257,994, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds...	\$ 135,606,307	\$ 86,050,690	\$ 7,719,320	\$ 6,912,025	\$ 143,325,627	\$ 92,962,715
MWRA notes.....	-	-	920,349	1,157,703	920,349	1,157,703
MWPAT notes.....	<u>12,018</u>	<u>16,024</u>	-	-	<u>12,018</u>	<u>16,024</u>
Total bonds and notes.....	\$ <u>135,618,325</u>	\$ <u>86,066,714</u>	\$ <u>8,639,669</u>	\$ <u>8,069,728</u>	\$ <u>144,257,994</u>	\$ <u>94,136,442</u>

The Town's total outstanding bonded debt increased by \$50,121,552 during the fiscal year. The Town issued/recognized new debt of \$51,579,285, retired \$5,718,360 of existing debt during the fiscal year and had \$4,260,627 of unamortized bond premiums. Approximately \$4,100,000 of bond premiums received in fiscal year 2016 have been applied to the High School construction project to reduce future borrowing.

The Town's most recent bond ratings from Moody's Investors Services and Standard and Poor's were Aaa.

Additional information on the Town's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

The Annual Spring Town Meeting held this past spring approved the fiscal year 2017 Operating Budget of \$114,875,368 which includes the appropriations of the General Fund, appropriations to the Special Article Fund, Building Stabilization Fund, Capital Stabilization Fund, Other Funds and the appropriation to the Water/Sewer and Recreation Enterprise Funds. Also included in the total appropriations is a transfer from the General Fund to the OPEB Trust Fund in the amount of \$350,000, bringing the OPEB Trust Fund balance to approximately \$2,185,000.

**TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The provisions of Proposition 21/2 limit the growth of the Town's major source of revenue, property taxes, to an annual increase of 2 1/2% plus a factor for the new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. It is expected that in fiscal year 2017, the revenue collected from taxes, including debt exclusions, will amount to approximately \$76,777,180.

Total fiscal year 2016 General Fund budgetary basis revenue and other financing sources (transfers in and premiums from issuance of bonds) was \$106,628,173. Property taxes accounted for 71.73%, Motor Vehicle Excise 3.45% and Intergovernmental 9.44% of total General Fund revenue and other financing sources. In fiscal year 2017, State revenue is expected to increase compared to fiscal year 2016. General Fund State reimbursements related to School construction will be \$672,082.

Total fiscal year 2016 General Fund budgetary basis expenditures (including encumbrances and continued appropriations) and transfers to other funds amount to \$102,896,148.

The Town continues to have substantial balances in its Stabilization Funds. The balances at June 30, 2016 in these funds are as follows:

- General/Capital Stabilization Fund - \$4,251,857
- Building Stabilization Fund - \$3,880,909
- Capital Stabilization Fund - \$1,047,790
- Special Education Stabilization Fund - \$302,675

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Comptroller, 71 Mount Vernon Street, Winchester, Massachusetts 01890.

TOWN OF WINCHESTER, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 13,178,154	\$ 2,246,441	\$ 15,424,595
Restricted Cash and Cash Equivalents	41,667,614	1,484,093	43,151,707
Investments	8,901,725	-	8,901,725
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	881,570	-	881,570
Tax and Utility Liens	713,157	35,964	749,121
Motor Vehicle and Other Excise Taxes	380,434	-	380,434
User Charges	-	2,005,270	2,005,270
Special Assessments	15	-	15
Department and Other	821,314	-	821,314
Intergovernmental	2,051,303	-	2,051,303
Total Current Assets	68,595,286	5,771,768	74,367,054
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	2,334,482	-	2,334,482
Restricted Investments	4,478,753	-	4,478,753
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate Tax Deferrals	720,683	-	720,683
Intergovernmental	1,729,852	-	1,729,852
Tax Foreclosures	13,603	-	13,603
Capital Assets not being Depreciated	151,645,515	2,828,349	154,473,864
Capital Assets, Net of Accumulated Depreciation	110,478,575	17,915,389	128,393,964
Total Noncurrent Assets	271,401,463	20,743,738	292,145,201
Total Assets	339,996,749	26,515,506	366,512,255
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	13,182,371	496,189	13,678,560
LIABILITIES			
Current Liabilities:			
Warrants Payable	6,107,292	52,972	6,160,264
Accrued Payroll	407,735	48,076	455,811
Tax Refunds Payable	145,000	-	145,000
Other Liabilities	317,194	-	317,194
Accrued Interest	3,194,439	155,710	3,350,149
Workers' Compensation Claims	111,645	-	111,645
Environmental Remediation	3,164,097	-	3,164,097
Compensated Absences	150,891	6,061	156,952
Short-Term Notes Payable	5,795,000	-	5,795,000
Long-Term Bonds and Notes Payable	5,461,926	1,053,915	6,515,841
Total Current Liabilities	24,855,219	1,316,734	26,171,953
Noncurrent Liabilities:			
Workers' Compensation Claims	37,215	-	37,215
Compensated Absences	1,358,018	54,550	1,412,568
Net Pension Liability	30,470,176	1,220,208	31,690,384
Net OPEB Obligation	28,244,229	1,153,049	29,397,278
Long-Term Bonds and Notes Payable	130,156,399	7,585,754	137,742,153
Total Noncurrent Liabilities	190,266,037	10,013,561	200,279,598
Total Liabilities	215,121,256	11,330,295	226,451,551
DEFERRED INFLOWS OF RESOURCES			
Taxes Received in Advance	1,360	-	1,360
Related to Pensions	2,571,831	97,471	2,669,302
Total Deferred Inflows of Resources	2,573,191	97,471	2,670,662
NET POSITION			
Net Investment in Capital Assets	154,606,813	13,478,177	168,084,990
Restricted for:			
Other Postemployment Benefits	1,834,772	-	1,834,772
Debt Service	4,351,681	-	4,351,681
Permanent Funds:			
Expendable	2,793,941	-	2,793,941
Nonexpendable	2,409,228	-	2,409,228
Other Specific Purposes	5,869,276	-	5,869,276
Unrestricted	(36,381,038)	2,105,752	(34,275,286)
Total Net Position	\$ 135,484,673	\$ 15,583,929	\$ 151,068,602

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

TOWN OF WINCHESTER, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 7,895,502	\$ 701,166	\$ 144,801	\$ -	\$ (7,049,535)
Public Safety	13,951,990	3,721,848	152,263	-	(10,077,879)
Education	69,492,855	2,978,287	18,882,585	20,691,950	(26,940,033)
Public Works	10,774,453	1,764,292	377,477	485,609	(8,147,075)
Health and Human Services	1,541,980	179,847	93,994	-	(1,268,139)
Culture and Recreation	2,788,201	28,878	145,570	-	(2,613,753)
Debt Service-Interest	4,376,396	-	319,260	-	(4,057,136)
Total Governmental Activities	<u>110,821,377</u>	<u>9,374,318</u>	<u>20,115,950</u>	<u>21,177,559</u>	<u>(60,153,550)</u>
Business-Type Activities:					
Water/Sewer	8,108,174	5,760,000	5,989	-	(2,342,185)
Recreation	1,769,469	1,726,004	1,329	-	(42,136)
Total Business-Type Activities	<u>9,877,643</u>	<u>7,486,004</u>	<u>7,318</u>	<u>-</u>	<u>(2,384,321)</u>
Total Primary Governments	<u>\$ 120,699,020</u>	<u>\$ 16,860,322</u>	<u>\$ 20,123,268</u>	<u>\$ 21,177,559</u>	<u>\$ (62,537,871)</u>

TOWN OF WINCHESTER, MASSACHUSETTS
STATEMENT OF ACTIVITIES (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net (Expense) Revenue (From Previous Page)	\$ (60,153,550)	\$ (2,384,321)	\$ (62,537,871)
General Revenues:			
Real Estate and Personal Property Taxes	76,790,018	-	76,790,018
Motor Vehicle and Other Excise Taxes	3,707,557	-	3,707,557
Penalties and Interest on Taxes	273,214	-	273,214
Payments in Lieu of Taxes	89,647	-	89,647
Grants and Contributions not Restricted to Specific Programs	1,693,428	-	1,693,428
Unrestricted Investment Income	233,307	-	233,307
Transfers, Net	<u>(3,434,354)</u>	<u>3,434,354</u>	<u>-</u>
Total General Revenues and Transfers	79,352,817	3,434,354	82,787,171
<i>Special Item - Loss on sale of asset held for resale</i>	<u>(750,000)</u>	<u>-</u>	<u>(750,000)</u>
CHANGE IN NET POSITION	18,449,267	1,050,033	19,499,300
Net Position - Beginning of Year	<u>117,035,406</u>	<u>14,533,896</u>	<u>131,569,302</u>
NET POSITION - END OF YEAR	<u>\$ 135,484,673</u>	<u>\$ 15,583,929</u>	<u>\$ 151,068,602</u>

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

TOWN OF WINCHESTER, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

ASSETS	<u>General</u>	<u>School Construction</u>	<u>Wright/Locke Farm Purchase</u>
Cash and Cash Equivalents	\$ 13,178,154	\$ -	\$ -
Investments	8,901,725	-	-
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	881,570	-	-
Real Estate Tax Deferrals	720,683	-	-
Tax Liens	713,157	-	-
Motor Vehicle and Other Excise taxes	380,434	-	-
Special Assessments	15	-	-
Departmental and Other	301,683	-	400,000
Intergovernmental	2,162,315	1,399,049	-
Tax Foreclosures	13,603	-	-
Restricted Assets:			
Cash and Cash Equivalents	6,186,453	26,150,905	-
Investments	-	-	-
Total Assets	<u>\$ 33,439,792</u>	<u>\$ 27,549,954</u>	<u>\$ 400,000</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Warrants Payable	\$ 635,892	\$ 4,265,111	\$ -
Accrued Payroll	390,927	209	-
Tax Refunds Payable	145,000	-	-
Other Liabilities	25,372	-	-
Accrued Short-Term Interest	5,323	-	-
Workers' Compensation Claims	148,860	-	-
Short-Term Notes Payable	-	295,000	400,000
Total Liabilities	<u>1,351,374</u>	<u>4,560,320</u>	<u>400,000</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes Received in Advance	1,360	-	-
Unavailable Revenue	4,957,392	-	400,000
Total Deferred Inflows of Resources	<u>4,958,752</u>	<u>-</u>	<u>400,000</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	6,186,453	22,989,634	-
Committed	8,128,757	-	-
Assigned	1,162,561	-	-
Unassigned	11,651,895	-	(400,000)
Total Fund Balances	<u>27,129,666</u>	<u>22,989,634</u>	<u>(400,000)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 33,439,792</u>	<u>\$ 27,549,954</u>	<u>\$ 400,000</u>

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

		<hr/>	
	Nonmajor Governmental Funds		Total Governmental Funds
	<hr/>		<hr/>
\$	-	\$	13,178,154
	-		8,901,725
	-		881,570
	-		720,683
	-		713,157
	-		380,434
	-		15
	119,631		821,314
	219,791		3,781,155
	-		13,603
	11,664,738		44,002,096
	<u>4,478,753</u>		<u>4,478,753</u>
\$	<u>16,482,913</u>	\$	<u>77,872,659</u>

\$	1,206,289	\$	6,107,292
	16,599		407,735
	-		145,000
	291,822		317,194
	-		5,323
	-		148,860
	<u>5,100,000</u>		<u>5,795,000</u>
	<u>6,614,710</u>		<u>12,926,404</u>

	-		1,360
	<u>119,632</u>		<u>5,477,024</u>
	<u>119,632</u>		<u>5,478,384</u>

	2,409,228		2,409,228
	8,807,285		37,983,372
	-		8,128,757
	-		1,162,561
	<u>(1,467,942)</u>		<u>9,783,953</u>
	<u>9,748,571</u>		<u>59,467,871</u>

\$	<u>16,482,913</u>	\$	<u>77,872,659</u>
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TOWN OF WINCHESTER, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	School Construction	Wright/Locke Farm Purchase
REVENUES			
Real Estate and Personal Property Taxes	\$ 76,612,468	\$ -	\$ -
Motor Vehicle and Other Excise Taxes	3,680,109	-	-
Tax Liens	132,732	-	-
Payments in Lieu of Taxes	89,647	-	-
Charges for Services	-	-	-
Trash Disposal	1,385,898	-	-
Intergovernmental	10,069,596	20,691,950	-
Special Assessments	1,704	-	-
Penalties and Interest on Taxes	273,214	-	-
Licenses and Permits	1,899,872	-	-
Fines and Forfeitures	34,962	-	-
Departmental and Other Contributions	1,649,714	-	-
Investment Income	-	-	-
	235,947	-	-
	<u>96,065,863</u>	<u>20,691,950</u>	<u>-</u>
Total Revenues			
EXPENDITURES			
Current:			
General Government	6,557,738	-	-
Public Safety	8,731,899	-	-
Education	43,154,653	48,920,705	-
Public Works	7,333,450	-	-
Health and Human Services	654,020	-	-
Culture and Recreation	1,764,896	-	-
Pension Benefits	3,909,712	-	-
Employee Benefits	9,931,482	-	-
Property and Liability Insurance	350,513	-	-
State and County Charges	599,850	-	-
Debt Service:			
Principal	4,678,301	-	-
Interest	1,909,187	-	-
	<u>89,575,701</u>	<u>48,920,705</u>	<u>-</u>
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,490,162</u>	<u>(28,228,755)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of Bonds and Notes	-	49,969,285	-
Premium from Issuance of Bonds and Notes	4,412,483	-	-
Sale of Assets Held for Resale	-	-	8,200,000
Transfers In	1,188,742	-	-
Transfer Out	(4,738,294)	-	-
	<u>862,931</u>	<u>49,969,285</u>	<u>8,200,000</u>
Total Other Financing Sources (Uses)			
NET CHANGE IN FUND BALANCES	7,353,093	21,740,530	8,200,000
Fund Balances - Beginning of Year	<u>19,776,573</u>	<u>1,249,104</u>	<u>(8,600,000)</u>
FUND BALANCES - END OF YEAR	<u>\$ 27,129,666</u>	<u>\$ 22,989,634</u>	<u>\$ (400,000)</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 76,612,468
-	3,680,109
-	132,732
-	89,647
2,310,565	2,310,565
-	1,385,898
3,196,613	33,958,159
-	1,704
-	273,214
297,728	2,197,600
-	34,962
1,969,184	3,618,898
1,040,289	1,040,289
59,126	295,073
<u>8,873,505</u>	<u>125,631,318</u>
571,623	7,129,361
1,236,991	9,968,890
7,554,911	99,630,269
857,195	8,190,645
175,651	829,671
132,279	1,897,175
-	3,909,712
-	9,931,482
-	350,513
-	599,850
-	4,678,301
-	1,909,187
<u>10,528,650</u>	<u>149,025,056</u>
<u>(1,655,145)</u>	<u>(23,393,738)</u>
-	49,969,285
-	4,412,483
-	8,200,000
382,371	1,571,113
(267,173)	(5,005,467)
<u>115,198</u>	<u>59,147,414</u>
(1,539,947)	35,753,676
<u>11,288,518</u>	<u>23,714,195</u>
\$ <u><u>9,748,571</u></u>	\$ <u><u>59,467,871</u></u>

TOWN OF WINCHESTER, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Governmental Fund Balances	\$	59,467,871
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		262,124,090
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds		5,477,024
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due		(3,189,116)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and Notes Payable		(135,618,325)
Environmental Remediation		(3,164,097)
Compensated Absences		(1,508,909)
Net Pension Liability		(30,470,176)
Net OPEB Obligation		(28,244,229)
In the statement of net position, deferred outflows of resources are reported for amounts related to pensions		13,182,371
In the statement of net position, deferred inflows of resources are reported for amounts related to pensions		<u>(2,571,831)</u>
Net Position of Governmental Activities	\$	<u><u>135,484,673</u></u>

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

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

Net Change in Fund Balances - Total Governmental Funds	\$	35,753,676
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital Outlays		52,461,925
Depreciation		(5,102,259)
<p>In the statement of activities, the loss on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed</p>		
		(64,212)
<p>In the statement of activities, the loss on the sale of assets held for resale is reported, whereas in the governmental funds the proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the difference between the loss and the proceeds</p>		
		(8,950,000)
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. 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 inflows of resources.</p>		
		(463,421)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Proceeds of Bonds		(49,969,285)
Unamortized Premiums from Issuance of Bonds		(4,260,628)
Bond Maturities		4,678,301
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable</p>		
		(2,539,423)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Environmental Remediation		1,035,903
Compensated Absences		80,978
Net Pension Liability		(11,906,324)
Net OPEB Obligation		(3,084,975)
<p>In the statement of activities, deferred outflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows related to pensions.</p>		
		13,182,371
<p>In the statement of activities, deferred inflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred inflows related to pensions.</p>		
		<u>(2,403,360)</u>
Changes in Net Position of Governmental Activities	\$	<u>18,449,267</u>

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

TOWN OF WINCHESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF FUND NET POSITION
 JUNE 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water/ Sewer	Recreation (Nonmajor)	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,831,873	\$ 414,568	\$ 2,246,441
Restricted Cash and Cash Equivalents	1,484,093	-	1,484,093
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	35,964	-	35,964
User Charges	2,005,270	-	2,005,270
Total Current Assets	5,357,200	414,568	5,771,768
Noncurrent Assets:			
Capital Assets not being Depreciated	2,828,349	-	2,828,349
Capital Assets, Net of Accumulated Depreciation	17,910,773	4,616	17,915,389
Total Noncurrent Assets	20,739,122	4,616	20,743,738
Total Assets	26,096,322	419,184	26,515,506
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	308,051	188,138	496,189
LIABILITIES			
Current Liabilities:			
Warrants Payable	33,954	19,018	52,972
Accrued Payroll	17,188	30,888	48,076
Accrued Interest	155,710	-	155,710
Compensated Absences	6,061	-	6,061
Long-Term Bonds and Notes Payable	1,053,915	-	1,053,915
Total Current Liabilities	1,266,828	49,906	1,316,734
Noncurrent Liabilities:			
Compensated Absences	54,550	-	54,550
Net Pension Liability	793,675	426,533	1,220,208
Net OPEB Obligation	830,462	322,587	1,153,049
Long-Term Bonds and Notes Payable	7,585,754	-	7,585,754
Total Noncurrent Liabilities	9,264,441	749,120	10,013,561
Total Liabilities	10,531,269	799,026	11,330,295
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	60,841	36,630	97,471
FUND NET POSITION			
Net Investment in Capital Assets	13,473,561	4,616	13,478,177
Unrestricted	2,338,702	(232,950)	2,105,752
Total Net Position	\$ 15,812,263	\$ (228,334)	\$ 15,583,929

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

TOWN OF WINCHESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water/ Sewer	Recreation (Nonmajor)	Total
OPERATING REVENUES			
Charges for Services	\$ 5,734,966	\$ 1,726,004	\$ 7,460,970
Penalties and Interest	25,034	-	25,034
Total Operating Revenues	<u>5,760,000</u>	<u>1,726,004</u>	<u>7,486,004</u>
OPERATING EXPENSES			
Cost of Service and Administration	2,067,938	1,769,043	3,836,981
MWRA Assessment	5,102,683	-	5,102,683
Depreciation	655,621	425	656,046
Total Operating Expenses	<u>7,826,242</u>	<u>1,769,468</u>	<u>9,595,710</u>
OPERATING INCOME (LOSS)	<u>(2,066,242)</u>	<u>(43,464)</u>	<u>(2,109,706)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Income	5,989	1,329	7,318
Interest Expense	(281,933)	-	(281,933)
Total Nonoperating Revenues (Expenses), Net	<u>(275,944)</u>	<u>1,329</u>	<u>(274,615)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(2,342,186)</u>	<u>(42,135)</u>	<u>(2,384,321)</u>
Transfers In	4,133,635	222,288	4,355,923
Transfers Out	(824,491)	(97,078)	(921,569)
Total Transfers	<u>3,309,144</u>	<u>125,210</u>	<u>3,434,354</u>
CHANGE IN FUND NET POSITION	966,958	83,075	1,050,033
Fund Net Position - Beginning of Year	<u>14,845,305</u>	<u>(311,409)</u>	<u>14,533,896</u>
FUND NET POSITION - END OF YEAR	<u>\$ 15,812,263</u>	<u>\$ (228,334)</u>	<u>\$ 15,583,929</u>

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

TOWN OF WINCHESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water/ Sewer	Recreation (Nonmajor)	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 5,699,198	\$ 1,726,004	\$ 7,425,202
Payments to Vendors	(5,925,424)	(689,633)	(6,615,057)
Payments to Employees	(1,189,261)	(1,030,301)	(2,219,562)
Net Cash Provided by Operating Activities	<u>(1,415,487)</u>	<u>6,070</u>	<u>(1,409,417)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	4,133,635	222,288	4,355,923
Transfers Out	(824,491)	(97,078)	(921,569)
Net Cash Provided by Noncapital Financing Activities	<u>3,309,144</u>	<u>125,210</u>	<u>3,434,354</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Issuance of Bonds and Notes	1,610,000	-	1,610,000
Acquisition and Construction of Capital Assets	(1,906,146)	-	(1,906,146)
Principal Payments on Bonds and Notes	(1,040,059)	-	(1,040,059)
Interest Paid	(218,512)	-	(218,512)
Net Cash Used by Capital and Related Financing Activities	<u>(1,554,717)</u>	<u>-</u>	<u>(1,554,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	5,989	1,329	7,318
NET CHANGE IN CASH AND CASH EQUIVALENTS	344,929	132,609	477,538
Cash and Cash Equivalents at Beginning of Year (includes \$2,118,719 reported as restricted in Water/Sewer)	<u>2,971,037</u>	<u>281,959</u>	<u>3,252,996</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (includes \$1,484,093 reported as restricted in Water/Sewer)	<u>\$ 3,315,966</u>	<u>\$ 414,568</u>	<u>\$ 3,730,534</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (2,066,242)	\$ (43,464)	\$ (2,109,706)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	655,621	425	656,046
Net Pension Liability and Deferred Outflows/Inflows	26,344	16,090	42,434
Net OPEB Obligation	123,748	49,499	173,247
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	(697)	-	(697)
User Charges	(60,105)	-	(60,105)
Warrants Payable	(78,541)	(1,458)	(79,999)
Accrued Payroll	(15,502)	(15,022)	(30,524)
Compensated Absences	(113)	-	(113)
Total Adjustments	<u>650,755</u>	<u>49,534</u>	<u>700,289</u>
Net Cash Provided by Operating Activities	<u>\$ (1,415,487)</u>	<u>\$ 6,070</u>	<u>\$ (1,409,417)</u>

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

TOWN OF WINCHESTER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	<u>Pension Trust Fund (As of 12/31/15)</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,986,762	\$ 103,165	\$ 1,024,283
Investments	100,101,365	595,876	-
Interest and Dividends	299	-	-
Receivables, Net of Allowance for Uncollectible Amounts:			
Departmental and Other	<u>3,754</u>	<u>-</u>	<u>-</u>
Total Assets	<u>102,092,180</u>	<u>699,041</u>	<u>1,024,283</u>
LIABILITIES			
Warrants Payable	54,915	-	3,685
Other Liabilities	-	-	921,308
Liabilities Due Depositors	<u>-</u>	<u>-</u>	<u>99,290</u>
Total Liabilities	<u>54,915</u>	<u>-</u>	<u>\$ 1,024,283</u>
NET POSITION			
Net Position Restricted for Pension and Other Purposes	<u>\$ 102,037,265</u>	<u>\$ 699,041</u>	

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

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

	Pension Trust Fund (As of 12/31/15)	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer	\$ 4,055,526	\$ -
Plan Members	2,084,000	-
Private Donations	-	3,000
Total Contributions	6,139,526	3,000
Net Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	(1,124,941)	(1,757)
Interest	835,490	10,922
Total Investment Income	(289,451)	9,165
Less: Investment Expense	(258,549)	-
Net Investment Income	(548,000)	9,165
Other	522,007	-
Total Additions	6,113,533	12,165
DEDUCTIONS		
Administration	148,000	-
Retirement Benefits and Refunds	7,101,000	-
Transfers to Other Systems	521,636	-
Scholarships Awarded	-	22,015
Total Deductions	7,770,636	22,015
CHANGE IN NET POSITION	(1,657,103)	(9,850)
Net Position - Beginning of Year	103,694,368	708,891
NET POSITION - END OF YEAR	\$ 102,037,265	\$ 699,041

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Reporting Entity

The Town of Winchester, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete.

The Town has included the Winchester Contributory Retirement System (System) as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the Town. Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

Blended Component Unit

The System was established to provide retirement benefits to Town employees, the Winchester Housing Authority's employees, and their respective beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, a fourth member appointed by the Board of Selectmen and a fifth member appointed by the Retirement Board's members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary funds financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 71 Mount Vernon Street, Winchester, Massachusetts 01890.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Northeast Metropolitan Regional Vocational School District

The Town is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's fiscal year 2016 assessment totaled approximately \$133,000. Separate financial statements may be obtained by writing to the Treasurer of the District at 100 Hemlock Road, Wakefield, Massachusetts 01880.

C. Implementation of New Accounting Principles

For the year ended June 30, 2016, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The implementation of GASB Statement No. 72 required certain disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques related to the Town's investments.

The implementation of GASB Statement No. 76 had no reporting impact for the Town.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

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

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

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

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

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

The *General Fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The *School Construction Fund* is a capital projects fund used to account for financial resources to expand and upgrade school facilities.

The *Wright/Locke Farm Purchase Fund* is a capital projects fund used to account for financial resources that were used to purchase and subsequently sell the Wright/Locke Farm property.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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

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

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

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

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

The following major proprietary fund is reported:

The *Water and Sewer Enterprise Fund* is used to account for water and sewer activities.

The following nonmajor proprietary fund is reported:

The *Recreation Enterprise Fund* is used to account for recreation activities.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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

The following fiduciary fund types are reported:

The *Pension Trust Fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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 benefits individuals, private organizations, or other governments.

The *Agency Fund* is used to account for assets held in a custodial capacity. Such assets consist of bid deposits and payroll withholdings. Agency funds do not present the results of operations or have a measurement focus.

F. Deposits and Investments

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

Investments are carried at fair value. Fair value is based on quotations from a national securities exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Deposits and Investments (Continued)

Alternative Investments

Alternative investments are recorded at fair value based on market values provided by investment firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. The tax year is from July 1 to June 30. Tax bills are sent on July 1st, October 1st, January 1st and April 1st and due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed approximately one year after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

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

User Charges (Water and Sewer)

User charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed approximately once every year and are included as a lien on the property owner's tax bill. Water and sewer charges are recorded as receivables when levied.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable (Continued)

Government-Wide and Fund Financial Statements (Continued)

Special Assessments

Special assessments for sidewalks and streets betterments are levied annually based on various sidewalks and streets projects. Residents have the option of paying their respective share of the betterment up front or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Special assessments are recorded as receivables when the project is complete.

Departmental and Other

Departmental and other receivables consist primarily of ambulance services and police details and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

H. Allowance for Uncollectible Amounts

Government-Wide and Fund Financial Statements

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments

Intergovernmental receivables are considered 100% collectible.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

J. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements and the proprietary fund financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>	<u>Capitalization Threshold (\$)</u>
Land.....	N/A	25,000
Land improvements.....	20-30	25,000
Buildings and improvements...	7-50	25,000
Machinery and equipment.....	5-30	5,000
Vehicles.....	5-10	5,000
Infrastructure.....	20-60	50,000

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

Government-Wide and Proprietary Fund Financial Statements (Continued)

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

Governmental Fund Financial Statements

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

L. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

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

Fund Financial Statements

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows of Resources

Government-Wide and Fund Financial Statements

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

Deferred outflows of resources related to pensions are reported in the government-wide and proprietary funds statements of net position.

O. Deferred Inflows of Resources

Government-Wide and Fund Financial Statements

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

The Town has three items that qualify for reporting in this category. They are as follows:

- Taxes received in advance are reported in the government-wide statement of net position and the governmental funds balance sheet. Taxes received in advance represent amounts collected in the current fiscal year that apply to the subsequent fiscal year's tax levy.
- Unavailable revenue is reported in the governmental funds balance sheet. Unavailable revenue represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.
- Related to pensions are reported in the government-wide statement of net position. They represent deferred inflows of resources as defined and identified in GASB Statement No. 68.

P. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net position)

Net position are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position has been "restricted" for the following:

Other postemployment benefits (OPEB) represent restrictions for current and future retirees' health insurance benefits.

Debt service represents amounts accumulated from premiums on exempt debt for the future payment of long-term debt service costs.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position and Fund Balances (Continued)

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net position) (Continued)

Permanent funds – expendable represents amounts held in trust for which the expenditures are restricted by various trust agreements.

Permanent funds – nonexpendable represents amounts held in trust for which only investment earnings may be expended.

Other specific purposes represent restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

Assigned — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned — represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position and Fund Balances (Continued)

Governmental Funds Financial Statements (Fund Balances) (Continued)

The Town adopted a general fund balance policy as of December 31, 2008. It is the Town's policy to maintain a sum in operating reserves that is no less than six percent of its total general fund revenues. The Town considers its operating reserves to consist of undesignated fund balance of the general fund (as defined by the Uniform Massachusetts Accounting System basis of accounting established by the Commonwealth) and the general stabilization fund balance.

Q. Long-Term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net position. Material bond premiums, discounts and losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium/discount.

Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses.

Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

R. Investment Income

Government-Wide and Fund Financial Statements

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

Investment income from the proprietary funds is retained in the proprietary funds.

S. Compensated Absences

Government-Wide and Proprietary Fund Financial Statements

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

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Compensated Absences (Continued)

Governmental Funds Financial Statements

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

T. Pensions

Government-Wide and Proprietary Fund Financial Statements

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 the benefit terms. Investments are reported at fair value.

U. Other Post-Employment Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 10, the Town provides health and life insurance coverage for current and future retirees and their spouses.

V. Use of Estimates

Government-Wide and Fund Financial Statements

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

W. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote and in some instances 2/3rds vote.

Increases to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2016 approved budget for the general fund authorized \$100,226,165 in appropriations. During fiscal year 2016, supplemental appropriations totaling \$2,106,023 were authorized.

The Comptroller's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

The budgetary comparison schedule presented in the accompanying Required Supplementary Information presents comparison of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

B. FUND DEFICITS

At June 30, 2016, the following fund deficits exist:

Fund	Amount	Funding Source
Skillings Field Environmental Remediation.....	\$ 1,035,903	Issuance of short-term debt
Wright/Locke Farm Purchase (major fund).....	400,000	Proceeds from sale of land
Aberjona Flood Mitigation.....	231,590	Issuance of short-term debt
Special Duty Details.....	200,449	User charges and available funds

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS

Town (Excluding the Pension Trust Fund)

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. Treasury or Agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds, private purpose trust funds and the pension trust fund are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2016, \$42,682,517 of the Town's bank balance of \$45,843,343 was uninsured and uncollateralized.

Investments Summary

The Town's investments at June 30, 2016 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type *	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 553,399	\$ 60,951	410,898	11,171	70,379
U.S. Agencies.....	990,820	-	990,820	-	-
Corporate bonds.....	383,328	383,328	-	-	-
Money market mutual funds....	910,294	910,294	-	-	-
Certificates of deposit.....	6,459,484	3,964,942	1,998,422	496,120	-
Fixed income securities.....	66,680	-	-	20,613	46,067
External investment pools.....	<u>9,778,281</u>	<u>9,778,281</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total debt securities.....	<u>19,142,286</u>	<u>\$ 15,097,796</u>	<u>\$ 3,400,140</u>	<u>\$ 527,904</u>	<u>\$ 116,446</u>
<u>Other Investments:</u>					
Equity securities.....	3,499,656				
Equity mutual funds.....	<u>2,755,059</u>				
Total other investments.....	<u>6,254,715</u>				
Total investments.....	<u>\$ 25,397,001</u>				

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town has a policy that the fixed income portion of the portfolio shall have an average maturity of not more than 10 years.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2016, the Town was not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town's policy for trust fund investments is that municipal and corporate debt securities shall be rated no less than "A" by at least one nationally recognized bond rating service at the time of purchase. The Town's policy for all other investments in debt securities is to comply with the provisions of MGL Chapter 44. As of June 30, 2016, the credit quality ratings of the Town's investments in debt securities are as follows:

Investment Type	Fair Value	Quality Ratings (1), (2)				
		AA+	AA	A	BBB+	Unrated
U.S. Agencies.....	\$ 990,820	\$ 990,820	\$ -	\$ -	\$ -	\$ -
Corporate bonds.....	383,328	-	-	93,987	287,682	1,659
Money market mutual funds...	910,294	-	-	-	-	910,294
Certificates of deposit.....	6,459,484	-	-	-	-	6,459,484
Fixed income securities.....	66,680	46,067	20,613	-	-	-
External investment pools.....	9,778,281	-	-	-	-	9,778,281
Total.....	\$ 18,588,887	\$ 1,036,887	\$ 20,613	\$ 93,987	\$ 287,682	\$ 17,149,718

(1) Per the rating scale of Standard and Poor's (a national credit rating organization)

(2) Excludes explicitly-guaranteed investments in U.S. Treasuries

Investments – Fair Value Measurements

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
U.S. Treasuries.....	\$ 553,399	\$ 553,399	\$ -	\$ -
U.S. Agencies.....	990,820	990,820	-	-
Corporate bonds.....	383,328	383,328	-	-
Certificates of deposit.....	6,459,484	6,459,484	-	-
Fixed income securities.....	66,680	66,680	-	-
Total Debt Securities.....	<u>8,453,711</u>	<u>8,453,711</u>	<u>-</u>	<u>-</u>
<u>Equity Securities:</u>				
Equity securities.....	3,499,656	3,499,656	-	-
Equity mutual funds.....	2,755,059	2,755,059	-	-
Total Equity Securities	<u>6,254,715</u>	<u>6,254,715</u>	<u>-</u>	<u>-</u>
Total Investments by Fair Value Level	\$ <u>14,708,426</u>	\$ <u>14,708,426</u>	\$ <u>-</u>	\$ <u>-</u>
Total Investments measured at Fair Value	\$ <u>14,708,426</u>			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

A portion of the System's investments include participation in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee and provides regulatory oversight. The reported value of the pool is the same as the fair value of the System's position in pool shares.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2015, the System was not exposed to custodial credit risk.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Summary

The System's investments at December 31, 2015 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type *	Fair Value	Investment Maturities (in Years) Less Than 1
<u>Debt Securities:</u>		
Money market mutual funds.... \$	1,965,648	\$ 1,965,648
Mutual bond funds.....	17,530,215	17,530,215
External investment pools.....	20,497,634	20,497,634
Total debt securities.....	39,993,497	\$ 39,993,497
<u>Other Investments:</u>		
Equity mutual funds.....	54,712,747	
Real estate investments.....	2,475,625	
Alternative investments.....	4,885,144	
Total other investments.....	62,073,516	
Total investments..... \$	102,067,013	

* Some amounts in this table are reported as Cash and Cash Equivalents in the financial statements

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2015, \$2,475,625 of real estate investments within the System's investments of \$102,067,013 was uninsured, not registered in the name of the System and exposed to custodial credit risk due to being held by a counterparty's trust or agent.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2015, the credit quality ratings of the System's debt securities are as follows:

<u>Quality Ratings *</u>	<u>Money Market Mutual Funds</u>	<u>Mutual Bond Funds</u>	<u>External Investment Pools</u>	<u>Total</u>
AAA.....	\$ -	\$ 10,256,929	\$ -	\$ 10,256,929
AA.....	-	927,348	-	927,348
A.....	-	3,555,128	-	3,555,128
BBB.....	-	1,074,602	-	1,074,602
BB.....	-	1,753	-	1,753
Below B.....	-	278,730	-	278,730
Unrated.....	<u>1,965,648</u>	<u>1,435,725</u>	<u>20,497,634</u>	<u>23,899,007</u>
Total.....	<u>\$ 1,965,648</u>	<u>\$ 17,530,215</u>	<u>\$ 20,497,634</u>	<u>\$ 39,993,497</u>

*Per the median quality ratings of Fitch's, Moody's or Standard and Poor's (national credit rating organizations)

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of December 31, 2015, the System's exposure to foreign currency risk is as follows:

Investment Type	U.S. Dollar Balances	Currency
Equity mutual funds.....	\$ 4,993,780	Euro
Equity mutual funds.....	3,845,973	Japanese Yen
Equity mutual funds.....	3,184,741	British Pound
Equity mutual funds.....	1,543,968	Swiss Franc
Equity mutual funds.....	1,122,289	Australian Dollar
Equity mutual funds.....	1,006,895	Chinese Yuan
Equity mutual funds.....	591,020	Korean won
Equity mutual funds.....	506,999	Hong Kong Dollar
Equity mutual funds.....	470,902	Swedish Krona
Equity mutual funds.....	458,713	New Taiwan Dollar
Equity mutual funds.....	330,956	Indian Rupee
Equity mutual funds.....	311,747	Danish Krone
Equity mutual funds.....	257,410	South African Rand
Equity mutual funds.....	206,990	Brazilian Real
Equity mutual funds.....	205,097	Singapore Dollar
Equity mutual funds.....	169,080	Mexican Peso
Equity mutual funds.....	129,653	Russian Ruble
Equity mutual funds.....	124,699	Israeli New Sheqel
Equity mutual funds.....	123,587	Malaysian Ringgit
Equity mutual funds.....	97,050	Indonesian Rupiah
Equity mutual funds.....	90,243	Norwegian Krone
Equity mutual funds.....	76,200	Thai Baht
Equity mutual funds.....	54,212	Philippine Peso
Equity mutual funds.....	51,179	Turkish Lira
Equity mutual funds.....	48,904	Polish Zloty
Equity mutual funds.....	45,113	Chilean Peso
Equity mutual funds.....	38,289	Qatar
Equity mutual funds.....	34,119	United Arab Emirates
Equity mutual funds.....	26,252	New Zealand Dollar
Equity mutual funds.....	15,543	Colombian Peso
Equity mutual funds.....	12,889	Peruvian Nuevo Sol
Equity mutual funds.....	9,857	Hungarian Forint
Equity mutual funds.....	7,203	Czech Republic Koruna
Equity mutual funds.....	7,203	Egyptian Pound
Total.....	<u>\$ 20,198,755</u>	

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 ACCOUNTS RECEIVABLE

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 881,570	\$ -	\$ 881,570
Real estate tax deferrals.....	720,683	-	720,683
Tax liens.....	713,157	-	713,157
Motor vehicle and other excise taxes.....	586,243	(205,809)	380,434
Special assessments.....	15	-	15
Departmental and other.....	1,100,699	(275,631)	825,068
Intergovernmental.....	3,781,155	-	3,781,155
Total.....	\$ 7,783,522	\$ (481,440)	\$ 7,302,082

At June 30, 2016, receivables for the water/sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,005,270	\$ -	\$ 2,005,270
Utility liens.....	35,964	-	35,964
Total.....	\$ 2,041,234	\$ -	\$ 2,041,234

McCall Middle School

The Massachusetts School Building Authority (MSBA) provides contract assistance to the Town for the completed McCall Middle School construction project. The assistance program provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2016, \$672,082 of such assistance was received and is reported as revenue in the General Fund major governmental fund's financial statements. Approximately \$3,360,000 will be received in future fiscal years. Of this amount, approximately \$1,198,000 represents reimbursement of long-term interest costs, and approximately \$2,162,000 represents reimbursement of approved construction costs. Accordingly, a \$2,162,000 intergovernmental receivable and corresponding deferred inflow have been reported in the General Fund major governmental fund's financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

Winchester High School

The MSBA provides grants to the Town for the Winchester High School construction project. Town Meeting authorized feasibility and construction costs of \$129,923,146, which included approximately \$31,800,000 of costs that are considered excludable in accordance with MSBA's reimbursement policy. Based on the most recently approved amendments, the MSBA has approved a maximum grant totaling approximately \$43,100,000 representing 42.92% of the MSBA allowable costs totaling approximately \$100,420,000. During fiscal year 2016, approximately \$20,692,000 of grant assistance was received and accrued and is reported as revenue in the School Construction major governmental fund's financial statements. As of June 30, 2016, approximately \$91,672,000 has been spent on the project and approximately \$33,634,000 in grants has been received and accrued to date. A \$1,399,049 intergovernmental receivable has been reported in the School Construction major governmental fund's financial statements for costs incurred but not yet reimbursed as of June 30, 2016.

NOTE 5 CAPITAL ASSETS

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

	<u>Balance at 6/30/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 6/30/16</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 60,081,516	\$ 4,650,000	\$ -	\$ 64,731,516
Construction in progress.....	<u>36,330,856</u>	<u>50,970,290</u>	<u>(387,147)</u>	<u>86,913,999</u>
Total capital assets not being depreciated..	<u>96,412,372</u>	<u>55,620,290</u>	<u>(387,147)</u>	<u>151,645,515</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	10,665,386	242,846	-	10,908,232
Buildings and improvements.....	138,627,467	616,605	-	139,244,072
Machinery and equipment.....	10,787,052	182,537	-	10,969,589
Vehicles.....	4,974,968	238,686	(68,034)	5,145,620
Infrastructure.....	<u>33,484,681</u>	<u>598,108</u>	<u>(280,563)</u>	<u>33,802,226</u>
Total capital assets being depreciated.....	<u>198,539,554</u>	<u>1,878,782</u>	<u>(348,597)</u>	<u>200,069,739</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(4,023,158)	(396,925)	-	(4,420,083)
Buildings and improvements.....	(43,506,591)	(3,022,613)	-	(46,529,204)
Machinery and equipment.....	(8,915,837)	(405,473)	-	(9,321,310)
Vehicles.....	(3,648,022)	(365,884)	68,004	(3,945,902)
Infrastructure.....	<u>(24,679,682)</u>	<u>(911,364)</u>	<u>216,381</u>	<u>(25,374,665)</u>
Total accumulated depreciation.....	<u>(84,773,290)</u>	<u>(5,102,259)</u>	<u>284,385</u>	<u>(89,591,164)</u>
Total capital assets being depreciated, net.....	<u>113,766,264</u>	<u>(3,223,477)</u>	<u>(64,212)</u>	<u>110,478,575</u>
Total governmental activities capital assets, net....	<u>\$ 210,178,636</u>	<u>\$ 52,396,813</u>	<u>\$ (451,359)</u>	<u>\$ 262,124,090</u>

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 CAPITAL ASSETS (CONTINUED)

Business-Type Activities:	Balance at			Balance at
	6/30/15	Increases	Decreases	6/30/16
<i>Water/Sewer:</i>				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 1,291,765	\$ 1,629,722	(93,138)	\$ 2,828,349
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,679,786	-	-	1,679,786
Buildings and improvements.....	7,324,527	-	-	7,324,527
Machinery and equipment.....	1,583,094	8,600	-	1,591,694
Vehicles.....	733,004	-	-	733,004
Infrastructure.....	16,431,488	360,962	-	16,792,450
Total capital assets being depreciated.....	27,751,899	369,562	-	28,121,461
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(321,380)	(82,891)	-	(404,271)
Buildings and improvements.....	(2,660,515)	(150,647)	-	(2,811,162)
Machinery and equipment.....	(1,074,545)	(71,425)	-	(1,145,970)
Vehicles.....	(667,791)	(18,642)	-	(686,433)
Infrastructure.....	(4,830,836)	(332,016)	-	(5,162,852)
Total accumulated depreciation.....	(9,555,067)	(655,621)	-	(10,210,688)
Total capital assets being depreciated, net.....	18,196,832	(286,059)	-	17,910,773
Total water/sewer capital assets, net.....	19,488,597	1,343,663	(93,138)	20,739,122
<i>Recreation:</i>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	364,965	-	-	364,965
Buildings and improvements.....	10,716	-	-	10,716
Total capital assets being depreciated.....	375,681	-	-	375,681
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(360,979)	(211)	-	(361,190)
Buildings and improvements.....	(9,661)	(214)	-	(9,875)
Total accumulated depreciation.....	(370,640)	(425)	-	(371,065)
Total recreation capital assets, net.....	5,041	(425)	-	4,616
Total business-type activities capital assets, net....	\$ 19,493,638	\$ 1,343,238	\$ (93,138)	\$ 20,743,738

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:

General government.....	\$ 465,301
Public safety.....	410,110
Education.....	2,467,030
Public works.....	1,329,216
Health and human services.....	4,647
Culture and recreation.....	<u>425,955</u>

Total depreciation expense - governmental activities..... \$ 5,102,259

Business-Type Activities:

Water/Sewer.....	\$ 655,621
Recreation.....	<u>425</u>

Total depreciation expense - business-type activities..... \$ 656,046

NOTE 6 INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:				Total
	General Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	Recreation Enterprise Fund	
General Fund.....	\$ -	\$ 382,371	\$ 4,133,635	\$ 222,288	\$ 4,738,294 (1)
Nonmajor Governmental Funds.....	267,173	-	-	-	267,173 (2)
Water/Sewer Enterprise Fund.....	824,491	-	-	-	824,491 (3)
Recreation Enterprise Fund.....	<u>97,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,078 (3)</u>
	<u>\$ 1,188,742</u>	<u>\$ 382,371</u>	<u>\$ 4,133,635</u>	<u>\$ 222,288</u>	<u>\$ 5,927,036</u>

(1) Represents budgeted transfers to the water/sewer enterprise fund for budgeted subsidy (\$4,133,635), recreation enterprise fund for budgeted subsidy (\$175,000) and for recreation enterprise fund wage allocation (\$47,288). Also represents transfer to athletic revolving fund (\$382,371).

(2) Represents budgeted transfers to the general fund from the parking meter special revenue fund (\$197,000) and the cemetery perpetual care fund (\$70,000). Also represents closeouts of various funds (\$173).

(3) Represents transfers for indirect costs allocated to water/sewer (\$824,491) and recreation (\$97,078) enterprise funds related to shared employees.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 SHORT-TERM FINANCING

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

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2016, is as follows:

Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016
BAN	Land Acquisition.....	7/2/14	7/2/15	0.50%	8,175,000	-	(8,175,000)	-
BAN	Land Acquisition.....	7/2/14	7/2/15	0.50%	425,000	-	(425,000)	-
BAN	Land Acquisition.....	10/30/15	10/28/16	0.95%	-	400,000	-	400,000
BAN	Land Acquisition (2).....	7/2/15	10/30/15	1.00%	-	11,595,000	(11,595,000)	-
BAN	Land Acquisition.....	7/2/15	10/30/15	1.00%	-	425,000	(425,000)	-
BAN	High School Construction.....	6/28/16	10/28/16	2.00%	-	20,000,000	(20,000,000)	-
BAN	Vinson-Owen School Construction.....	6/28/16	10/28/16	2.00%	-	295,000	-	295,000
BAN	Skillings Field Environmental Remediation.....	6/28/16	10/28/16	2.00%	-	2,530,000	-	2,530,000
BAN	Aberjona River Flood Mitigation/Culvert.....	6/28/16	10/28/16	2.00%	-	2,570,000	-	2,570,000
Total.....					\$ 8,600,000	\$ 37,815,000	\$ (40,620,000)	\$ 5,795,000

Subsequent Events

On October 28, 2016, the Town issued general obligation bonds totaling \$20,000,000 which were used to retire High School Construction BANs outstanding at June 30, 2016. Accordingly, \$20,000,000 of BANs has been reclassified to long-term debt at June 30, 2016.

On October 28, 2016, the Town issued BANs totaling \$7,928,000 at interest rates ranging from 1.10 – 1.75% and maturity dates of October 27, 2017. Of the \$7,928,000, \$5,795,000 represented renewals of BANs outstanding at June 30, 2016.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2016:

	Balance at 6/30/15	Increases	Decreases	Balance at 6/30/16	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 86,066,714	\$ 49,969,285	\$ (4,678,301)	\$ 131,357,698	\$ 5,461,926
Unamortized bond premiums.....	-	4,332,841	(72,214)	4,260,627	-
Total bonds and notes payable.....	86,066,714	54,302,126	(4,750,515)	135,618,325	5,461,926
Environmental remediation.....	4,200,000	-	(1,035,903)	3,164,097	3,164,097
Workers' compensation claims.....	316,044	168,966	(336,150)	148,860	111,645
Net pension liability.....	18,563,852	11,906,324	-	30,470,176	-
Net OPEB obligation.....	25,159,254	5,533,865	(2,448,890)	28,244,229	-
Compensated absences.....	1,589,887	-	(80,978)	1,508,909	150,891
Total.....	\$ <u>135,895,751</u>	\$ <u>71,911,281</u>	\$ <u>(8,652,436)</u>	\$ <u>199,154,596</u>	\$ <u>8,888,559</u>

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

Business-type Activities:					
Bonds and notes payable.....	\$ 8,069,728	\$ 1,610,000	\$ (1,040,059)	\$ 8,639,669	\$ 1,053,915
Net pension liability.....	772,049	448,159	-	1,220,208	-
Net OPEB obligation.....	979,802	310,772	(137,525)	1,153,049	-
Compensated absences.....	60,724	-	(113)	60,611	6,061
Total.....	\$ <u>9,882,303</u>	\$ <u>2,368,931</u>	\$ <u>(1,177,697)</u>	\$ <u>11,073,537</u>	\$ <u>1,059,976</u>

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM DEBT

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

Bonds and Notes Payable - Governmental Funds

Date of Issue	Maturity Date	Original Issue	Project	Interest Rate	Outstanding at 6/30/15	Issued	Redeemed	Outstanding at 6/30/16
10/25/00	08/01/18	\$ 72,121	MWPAT.....	4.96%	\$ 16,024	\$ -	\$ (4,006)	\$ 12,018
07/01/05	07/01/19	765,490	School building remodeling refunding.....	3.82%	358,540	-	(73,820)	284,720
07/01/05	07/01/19	165,260	School engineering refunding.....	3.82%	76,435	-	(15,475)	60,960
07/01/05	07/01/24	3,143,000	School remodeling.....	3.92%	1,665,000	-	(165,000)	1,500,000
07/01/05	07/01/24	375,000	Town building remodeling.....	3.91%	195,000	-	(20,000)	175,000
07/01/05	07/01/19	272,000	Equipment and planning.....	3.51%	25,000	-	(5,000)	20,000
07/01/05	07/01/24	375,000	Drainage - cross street.....	3.90%	195,000	-	(20,000)	175,000
07/01/06	07/01/25	440,000	Building remodeling.....	4.25%	240,000	-	(25,000)	215,000
07/01/06	07/01/25	900,150	School remodeling.....	4.24%	660,000	-	(60,000)	600,000
07/01/06	07/01/24	490,200	Lincoln school.....	4.26%	250,000	-	(25,000)	225,000
07/01/06	07/01/17	57,000	Drainage.....	4.25%	15,000	-	(5,000)	10,000
07/01/06	07/01/25	1,660,000	Ambrose school.....	4.24%	940,000	-	(90,000)	850,000
07/01/06	07/01/25	412,850	Building remodeling & plans.....	4.25%	165,000	-	(15,000)	150,000
07/01/08	07/01/25	2,968,000	School remodeling.....	4.13%	1,915,000	-	(175,000)	1,740,000
07/01/08	07/01/22	1,100,000	School classrooms.....	4.08%	630,000	-	(80,000)	550,000
07/01/08	07/01/27	562,000	McCall middle school design.....	4.18%	380,000	-	(30,000)	350,000
07/01/08	07/01/27	128,000	Building remodeling and plans.....	4.15%	80,000	-	(8,000)	72,000
07/01/08	07/01/28	6,188,000	McCall middle school addition.....	4.21%	4,320,000	-	(310,000)	4,010,000
07/01/08	07/01/28	1,556,000	Public safety building.....	4.21%	1,067,000	-	(81,000)	986,000
07/01/08	07/01/28	2,100,000	Town hall.....	4.20%	1,463,000	-	(106,000)	1,357,000
07/01/08	07/01/28	390,000	Transfer station/landfill use restoration.....	4.25%	270,000	-	(20,000)	250,000
05/01/09	05/01/29	1,644,000	Public safety building.....	3.53%	1,130,000	-	(85,000)	1,045,000
05/01/09	05/01/29	1,000,000	DPW complex.....	3.55%	700,000	-	(50,000)	650,000
05/01/09	05/01/24	1,350,000	Manchester field.....	3.24%	810,000	-	(90,000)	720,000
05/01/09	05/01/29	960,000	Fire alarms/corridor/ADA.....	3.53%	660,000	-	(50,000)	610,000
08/15/09	08/15/16	206,000	Building remodeling refunding.....	2.71%	56,000	-	(30,000)	26,000
08/15/09	08/15/17	642,000	School project refunding.....	2.76%	217,000	-	(75,000)	142,000
08/15/09	08/15/20	8,667,000	School construction refunding.....	3.23%	5,522,000	-	(965,000)	4,557,000
04/15/10	04/15/25	1,282,000	Muraco School HVAC.....	3.22%	850,000	-	(85,000)	765,000
04/15/10	04/15/15	650,000	Fire Trucks.....	2.38%	-	-	-	-
04/15/10	04/15/29	220,000	DPW Repairs.....	3.37%	145,000	-	(15,000)	130,000
04/28/11	04/15/36	16,000,000	Vinson-Owen School.....	4.05%	13,440,000	-	(640,000)	12,800,000
04/28/11	04/15/31	970,000	Lynch School roof repairs.....	3.65%	770,000	-	(50,000)	720,000
04/28/11	04/15/26	100,000	Muraco School HVAC.....	3.28%	60,000	-	(10,000)	50,000
04/28/11	04/15/31	3,962,000	Flood mitigation.....	3.68%	3,160,000	-	(200,000)	2,960,000
05/16/12	07/01/24	3,832,150	Ambrose School.....	2.00%	3,660,650	-	(413,200)	3,247,450
05/16/12	07/01/24	2,389,000	Lincoln School I.....	2.00%	2,282,000	-	(250,500)	2,031,500
05/16/12	07/01/24	102,500	Lincoln School II (comp).....	2.00%	97,500	-	(11,000)	86,500
05/16/12	07/01/24	490,500	Capital improvements.....	2.00%	467,000	-	(79,000)	388,000
05/16/12	07/01/24	40,350	Sewer & Dam.....	2.00%	38,350	-	(5,800)	32,550
05/16/12	07/01/24	53,500	Departmental Equipment II.....	2.00%	50,500	-	(20,500)	30,000
05/16/12	07/01/24	108,500	Sewer.....	2.00%	103,500	-	(11,500)	92,000
05/16/12	07/01/24	148,500	Roads.....	2.00%	140,500	-	(23,500)	117,000
05/16/12	07/01/24	630,000	Flood mitigation - Center Falls Dam.....	2.00%	480,000	-	(50,000)	430,000
07/01/14	07/01/34	1,770,000	Vinson-Owen School.....	3.20%	1,770,000	-	(90,500)	1,679,500
07/01/14	07/01/34	850,000	High School feasibility study.....	3.20%	850,000	-	(44,500)	805,500
07/01/15	07/01/21	30,715	High School feasibility study.....	5.00%	30,715	-	-	30,715
07/01/15	07/01/44	30,000,000	High School construction.....	5.00%	30,000,000	-	-	30,000,000
07/01/15	07/01/35	230,000	Vinson-Owen School.....	5.00%	230,000	-	-	230,000
10/15/15	10/15/35	3,420,000	Land Acquisition.....	3.44%	3,420,000	-	-	3,420,000
07/01/15	07/01/45	29,969,285	High School construction.....	5.00%	-	29,969,285	-	29,969,285
10/28/16	10/15/45	20,000,000	High School construction.....	3.22%	-	20,000,000	-	20,000,000
Total governmental funds.....					\$ 86,066,714	\$ 49,969,285	\$ (4,678,301)	\$ 131,357,698
Unamortized premiums.....					-	4,332,841	(72,214)	4,260,627
Total governmental funds, net.....					\$ 86,066,714	\$ 54,302,126	\$ (4,750,515)	\$ 135,618,325

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable - Governmental Funds (Continued)

Debt service requirements (gross) for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$ 5,461,926	\$ 5,593,386	\$ 11,055,312
2018.....	6,936,206	5,067,227	12,003,433
2019.....	7,119,566	4,479,548	11,599,114
2020.....	7,085,000	4,203,748	11,288,748
2021.....	6,960,000	3,933,796	10,893,796
2022.....	6,035,000	3,682,070	9,717,070
2023.....	6,020,000	3,444,682	9,464,682
2024.....	5,900,000	3,206,285	9,106,285
2025.....	5,770,000	2,968,142	8,738,142
2026.....	4,925,000	2,740,896	7,665,896
2027.....	4,585,000	2,531,034	7,116,034
2028.....	4,600,000	2,327,564	6,927,564
2029.....	4,550,000	2,145,112	6,695,112
2030.....	3,935,000	1,994,101	5,929,101
2031.....	3,890,000	1,846,822	5,736,822
2032.....	3,735,000	1,694,232	5,429,232
2033.....	3,745,000	1,550,975	5,295,975
2034.....	3,765,000	1,406,122	5,171,122
2035.....	3,790,000	1,260,191	5,050,191
2036.....	3,680,000	1,117,720	4,797,720
2037.....	2,885,000	985,569	3,870,569
2038.....	2,910,000	888,243	3,798,243
2039.....	2,935,000	788,869	3,723,869
2040.....	2,960,000	686,895	3,646,895
2041.....	2,990,000	579,624	3,569,624
2042.....	3,020,000	467,518	3,487,518
2043.....	3,050,000	354,474	3,404,474
2044.....	3,080,000	240,492	3,320,492
2045.....	2,965,000	128,575	3,093,575
2046.....	2,075,000	36,940	2,111,940
Total.....	<u>\$ 131,357,698</u>	<u>\$ 62,350,852</u>	<u>\$ 193,708,550</u>

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Water/Sewer Enterprise Fund

Date of Issue	Maturity Date	Original Issue	Project	Interest Rate	Outstanding at 6/30/15	Issued	Redeemed	Outstanding at 6/30/16
07/01/05	07/01/19	2,515,470	Water mains refunding.....	3.81%	1,168,795	-	(241,825)	926,970
07/01/05	07/01/19	448,780	Water mains II refunding.....	3.81%	206,230	-	(43,880)	162,350
08/25/05	08/15/15	555,190	Water (MWRA).....	0.00%	55,519	-	(55,519)	-
7/1/2006	07/01/26	2,149,000	Drainage.....	4.46%	1,265,000	-	(110,000)	1,155,000
05/01/09	04/15/29	750,000	Phase III drainage.....	3.53%	510,000	-	(40,000)	470,000
4/15/2010	04/15/29	1,688,000	Drainage.....	3.43%	1,260,000	-	(90,000)	1,170,000
5/16/2012	07/01/24	210,000	Sewer pump stations.....	2.00%	150,000	-	(15,000)	135,000
6/11/2012	05/15/17	64,515	Sewer (MWRA).....	0.00%	25,806	-	(12,903)	12,903
05/16/12	07/01/24	1,625,000	Drainage refunding.....	2.00%	1,550,000	-	(170,000)	1,380,000
02/24/14	02/15/19	510,785	Sewer (MWRA).....	0.00%	408,628	-	(102,157)	306,471
07/01/14	07/01/34	308,000	Drainage.....	3.20%	308,000	-	(23,000)	285,000
07/01/14	07/01/34	198,000	Dam improvement planning.....	4.00%	198,000	-	(53,000)	145,000
07/01/14	07/01/34	296,000	Sewer system repairs.....	3.19%	296,000	-	(16,000)	280,000
3/15/2015	02/15/25	167,750	Sewer (MWRA).....	0.00%	167,750	-	(16,775)	150,975
5/5/2015	02/15/25	500,000	Water (MWRA).....	0.00%	500,000	-	(50,000)	450,000
7/1/2015	07/01/35	1,300,000	South Reservoir Dam Improvements I.....	5.00%	-	1,300,000	-	1,300,000
7/1/2015	07/01/35	310,000	South Reservoir Dam Improvements II.....	5.00%	-	310,000	-	310,000
Total water/sewer enterprise fund.....					<u>8,069,728</u>	<u>1,610,000</u>	<u>(1,040,059)</u>	<u>8,639,669</u>

The MWRA operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan (payable in five or ten equal annual installments). At June 30, 2016, the outstanding principal amount of these loans totaled \$920,349.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Water/Sewer Enterprise Fund (Continued)

Debt service requirements (gross) for principal and interest for water/sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	1,053,915	298,393	1,352,308
2018.....	1,021,732	232,045	1,253,777
2019.....	1,003,372	201,524	1,204,896
2020.....	846,775	173,134	1,019,909
2021.....	576,775	150,396	727,171
2022.....	571,775	133,682	705,457
2023.....	566,775	116,914	683,689
2024.....	561,775	100,119	661,894
2025.....	556,775	83,119	639,894
2026.....	340,000	67,721	407,721
2027.....	335,000	53,957	388,957
2028.....	235,000	42,260	277,260
2029.....	235,000	33,366	268,366
2030.....	110,000	25,082	135,082
2031.....	110,000	21,382	131,382
2032.....	110,000	17,263	127,263
2033.....	110,000	13,107	123,107
2034.....	110,000	8,933	118,933
2035.....	105,000	4,822	109,822
2036.....	80,000	1,399	81,399
Total.....	<u>\$ 8,639,669</u>	<u>\$ 1,778,618</u>	<u>\$ 10,418,287</u>

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Authorized and Unissued Debt

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

Purpose	Amount
High School Remodeling.....	\$ 39,869,405
Aberjona River Flood Mitigation.....	7,450,000
Skillings Field Construction.....	4,000,000
Ware Rd & Norther Border Rd. Water Main Linding...	500,000
Sewer System Repairs.....	417,915
Land Acquisition.....	400,000
Vinson-Owen School Construction.....	325,275
Sewer System Investigation.....	296,250
Sewer Improvements.....	207,000
Sewer.....	186,170
Sewer System Repairs Design & Engineering.....	100,000
Total.....	\$ 53,752,015

NOTE 10 OTHER POST EMPLOYMENT BENEFITS

Plan Description – The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the Plan) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process, Town Meeting and/or Board of Selectmen vote. The Plan does not issue a stand alone financial report.

The number of participants as of June 30, 2015, the latest actuarial valuation, is as follows:

Active employees.....	764
Retired employees, beneficiaries and dependents.....	599
Total.....	1,363

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. As of July 1, 2016, the required health insurance contribution rates (including Medicare Part B) of Plan members and the Town vary by health plan and range from 30 - 50% and 50 - 70%, respectively. The Town's most recent actuarial valuation assumed that effective January 1, 2016, pre-June 30, 2004 retirees enrolled in certain health plans will contribute 30% and that effective July 1, 2017, all post-June 30, 2004 retirees will contribute 50%. Subsequent to the most recent actuarial valuation, the Town voted to change all post-June 30, 2004 retirees' contribution rates to 50% effective July 1, 2019 as opposed to July 1, 2017. The Plan members and Town each contribute 50% towards a \$4,000 term life insurance policy. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town's net OPEB obligation:

	Amount
Annual required contribution.....	\$ 5,674,208
Interest on net OPEB obligation.....	1,022,572
Adjustment to annual required contribution.....	(852,143)
Annual OPEB cost.....	5,844,637
Contributions made.....	(2,586,415)
Increase in net OPEB obligation.....	3,258,222
Net OPEB obligation at beginning of year.....	26,139,056
Net OPEB obligation at end of year.....	\$ 29,397,278

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2014.....	4,623,941	47.9%	22,938,523
June 30, 2015.....	5,570,810	42.5%	26,139,056
June 30, 2016.....	5,844,637	44.3%	29,397,278

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress – The funded status of the Plan at June 30, 2015, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/15	\$ -	\$ 78,355,195	\$ 78,355,195	0.0%	\$ 54,100,000	144.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year 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.

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date: June 30, 2015

Actuarial cost method: Projected Unit Credit

Amortization method: Level percentage of pay assuming 4.0% increasing payments

Remaining amortization period: 30 years at June 30, 2015 (open amortization period)

Interest discount rate: 4.0%

Healthcare/Medical cost trend rate: 5.5% decreasing 0.5% annually to an ultimate level of 4.5%

Projected salary increases: 4.0% annually

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Allocation of AOPEBC – AOPEBC costs were allocated to the Town’s functions as follows:

Governmental Activities:	
General government.....	\$ 127,223
Public safety.....	907,606
Education.....	3,864,499
Public works.....	531,087
Health and human services.....	40,508
Culture and recreation.....	<u>62,942</u>
Total AOPEBC - governmental activities.....	<u>5,533,865</u>
 Business-Type Activities:	
Water/Sewer.....	221,981
Recreation.....	<u>88,791</u>
Total AOPEBC - business-type activities.....	<u>310,772</u>
Total AOPEBC.....	<u>\$ 5,844,637</u>

NOTE 11 ENVIRONMENTAL REMEDIATION

The Town has included in its financial statements a cost estimate of \$3,164,097 for the remaining remediation of oil and/or hazardous materials (OHM) identified in soil at Skillings Field during environmental testing associated with the Aberjona River Flood Mitigation project. The presence of OHM above regulatory thresholds required reporting to Massachusetts Department of Environmental Protection. The Town must implement a remedy by November 1, 2019.

The environmental remediation obligation was determined using the expected cash flow technique, which uses all expectations regarding possible cash flows. The obligation is based on what it would cost to perform remediation activities in fiscal year 2016. Actual costs may vary due to inflation, changes in technology, and changes in regulations.

NOTE 12 RISK FINANCING

Property and Liability Insurance

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 RISK FINANCING (CONTINUED)

Health Insurance

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

Workers' Compensation and Unemployment Insurance

The Town is self-insured for its workers' compensation and unemployment activities. These activities are accounted for in the general fund where expenses are recorded when incurred. Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The liability at June 30, 2016, totaled \$148,860. Changes in the reported liability since July 1, 2014, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2015.....	\$ 300,227	361,056	(345,239)	316,044
Fiscal year 2016.....	\$ 316,044	168,966	(336,150)	148,860

The Town's liability for unemployment claims is immaterial at June 30, 2016, and therefore is not reported.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 13 FUND BALANCE

The constraints on fund balances in the Governmental Funds Balance Sheet are detailed as follows:

	General	School Construction	Wright/Locke Farm Purchase	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 2,409,228	\$ 2,409,228
Restricted for:					
Debt service.....	4,351,681	-	-	-	4,351,681
Other post employment benefits...	1,834,772	-	-	-	1,834,772
School construction.....	-	22,989,634	-	-	22,989,634
Flood mitigation.....	-	-	-	2,220,425	2,220,425
Library endowment.....	-	-	-	1,578,949	1,578,949
Housing funds.....	-	-	-	970,834	970,834
Conservation fund.....	-	-	-	91,564	91,564
Sale of land receipts reserved.....	-	-	-	247,561	247,561
Aberjona River widening.....	-	-	-	246,206	246,206
SPED Circuit Breaker.....	-	-	-	101,257	101,257
School lunch.....	-	-	-	277,506	277,506
Miscellaneous capital.....	-	-	-	3,537	3,537
Workers' compensation.....	-	-	-	20,000	20,000
General government.....	-	-	-	135,577	135,577
Public safety.....	-	-	-	401,589	401,589
Education.....	-	-	-	650,976	650,976
Public works.....	-	-	-	893,919	893,919
Health and human services.....	-	-	-	207,187	207,187
Culture and recreation.....	-	-	-	760,198	760,198
Sub-total - Restricted.....	<u>6,186,453</u>	<u>22,989,634</u>	<u>-</u>	<u>8,807,285</u>	<u>37,983,372</u>
Committed to:					
Subsequent year's expenditures...	1,127,938	-	-	-	1,127,938
Building and capital stabilization...	4,928,699	-	-	-	4,928,699
Special education stabilization.....	302,675	-	-	-	302,675
Continuing appropriations.....	1,769,445	-	-	-	1,769,445
Sub-total - Committed.....	<u>8,128,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,128,757</u>
Assigned to:					
Encumbrances.....	1,162,561	-	-	-	1,162,561
Unassigned.....	<u>11,651,895</u>	<u>-</u>	<u>(400,000)</u>	<u>(1,467,942)</u>	<u>9,783,953</u>
Total.....	<u>\$ 27,129,666</u>	<u>\$ 22,989,634</u>	<u>\$ (400,000)</u>	<u>\$ 9,748,571</u>	<u>\$ 59,467,871</u>

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 STABILIZATION FUNDS

The Town maintains the following stabilization funds that were established under MGL Chapter 40, Section 5B and Chapter 69 of the Acts of 2002:

- Stabilization Fund (general and/or capital purposes)
- Building Renovations/Reconstruction Stabilization Fund (approved by Proposition 2^{1/2} override)
- Capital Improvements Stabilization Fund (approved by Proposition 2^{1/2} override)
- Special Education Stabilization Fund

Appropriations in and out of the stabilization funds require two-thirds vote of Town Meeting. Investment income is retained by the funds.

The balance of the general and/or capital purpose, building renovation, capital stabilization and special education stabilization funds at June 30, 2016 total \$4,251,857, \$3,880,909, \$1,047,790, and \$302,675, respectively, and are reported in the general fund as unassigned (\$4,251,857) and committed (\$5,231,374) fund balance.

NOTE 15 PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Winchester Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System. The System also covers eligible employees of the Winchester Housing Authority.

At December 31, 2015, the System's membership consisted of the following:

Active members.....	365
Inactive - entitled to or receiving benefits.....	9
Inactive - not entitled to or not receiving benefits.....	126
Retirees and beneficiaries currently receiving benefits.....	<u>267</u>
Total members.....	<u><u>767</u></u>
Number of participating employers.....	<u><u>2</u></u>

The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, a fourth member appointed by the Board of Selectmen and a fifth member appointed by the Retirement Board's members.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 PENSION PLAN (CONTINUED)

Benefits Provided - The System provides retirement, disability and death benefits to plan members and beneficiaries, pursuant to MGL Chapter 32, up to a maximum of 80% of the average of a member's three (if hired before April 1, 2012) or five (if hired after April 1, 2012) highest consecutive years' regular compensation. In addition to regular compensation, benefits are based upon a member's age, length of creditable service and group classification. Members become vested after ten years of creditable service. A normal retirement allowance may be received after the completion of 20 years of service or upon reaching age 55 (if hired before April 1, 2012) or 60 (if hired after April 1, 2012), with 10 years of service. Normal retirement for most employees occurs at age 65 (if hired before April 1, 2012) or 67 (if hired after April 1, 2012), except for certain hazardous duty and public safety employees who attain normal retirement at age 55 (if hired before April 1, 2012) or 57 (if hired after April 1, 2012).

Contributions – Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30,000. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

For the year ended December 31, 2015, active member contributions totaled \$2,084,000 and employer contributions totaled \$4,055,526. Contributions to the System from the Town were \$4,019,991 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - The components of the net pension liability of the System at December 31, 2015, were as follows:

Total pension liability.....	\$ 134,009,000
Plan fiduciary net position.....	<u>(102,037,265)</u>
Net pension liability.....	<u>\$ 31,971,735</u>
Plan fiduciary net position as a percentage of the total pension liability.....	76.14%

At June 30, 2016, the Town reported a liability of \$31,690,384 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 that was updated to December 31, 2015. The Town's proportion of the net pension liability is the proportionate share of employer contributions to the System as of December 31, 2015, actuarially determined. At December 31, 2015, the Town's proportion was 99.12%.

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 PENSION PLAN (CONTINUED)

For the year ended June 30, 2016, the Town recognized pension expense of \$5,192,897. At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$13,678,560 and deferred inflows of resources related to pensions of \$2,669,302.

The net amount reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2017.....	\$ 2,874,480
2018.....	2,874,480
2019.....	2,874,480
2020.....	<u>2,385,818</u>
	<u>\$ 11,009,258</u>

Actuarial Assumptions

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

Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 5.5% per year
Remaining amortization period:	13 years
Asset valuation method:	Market value
Investment rate of return:	7.25%, net of pension plan investment expense, including inflation
Inflation rate:	Not explicitly assumed
Salary increases:	4.25% per year for Group 1 and 4.75% per year for Group 4
Cost of living adjustment:	3.0% on the first \$12,000 in benefits

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers 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 of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
System's net pension liability..... \$	47,129,000	\$ 31,971,735	\$ 19,135,000

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability.... \$	46,714,265	\$ 31,690,384	\$ 18,966,612

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 PENSION PLAN (CONTINUED)

Legally Required Reserve Accounts – The balance in the System’s legally required reserves as of December 31, 2015 are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 22,063,544	Active members' contribution balance
Annuity Reserve Fund.....	5,125,514	Retired members' contribution account
Military Service Fund.....	6,258	Military leave of absence contribution balance
Pension Reserve Fund.....	71,496,354	Amounts appropriated to fund future retirement
Pension Fund.....	<u>3,345,595</u>	Remaining net position
Total.....	<u>\$ 102,037,265</u>	

NOTE 16 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Plan description - Public school teachers and certain administrators are provided with pensions through the Massachusetts Teachers’ Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts Teachers’ Retirement Board. The MTRS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report. The MTRS is reported as a Pension Trust Fund in the Commonwealth’s audited financial statements that can be found at <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.

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

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

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)

Contributions - The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30,000.

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, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Since the Town does not contribute directly to MTRS, the Town does not report a proportionate share of the net pension liability of the MTRS at June 30, 2016. The Commonwealth's net pension liability associated with the Town was \$101,190,658.

The MTRS' net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.

For the year ended June 30, 2016, the Town recognized pension expense of \$8,207,463 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

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

Investment rate of return – 7.5%

Salary increases - Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service

Mortality Rates - Pre-retirement reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct). Post-retirement reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct). Disability is assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Other - 3.5% interest rate credited to the annuity savings fund; 3.0% cost of living increase per year

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity.....	40%	6.9%
Core Fixed Income.....	13%	2.4%
Private Equity.....	10%	8.5%
Real Estate.....	10%	6.5%
Value Added Fixed Income.....	10%	5.8%
Hedge Funds.....	9%	5.8%
Portfolio Completion Strategies.....	4%	5.5%
Timber/Natural Resources.....	4%	6.6%
Totals	<u>100%</u>	

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

Pension plan fiduciary net position - Detailed information about the MTRS' fiduciary net position is available in the Commonwealth's audited financial statements.

NOTE 17 COMMITMENTS

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$2,932,006 at June 30, 2016.

TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 18 CONTINGENCIES

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

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2016, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 76,221,041	\$ 89,153	\$ 76,310,194
Motor Vehicle and Other Excise Taxes	-	3,400,000	-	3,400,000
Tax Liens	-	-	-	-
Payments in Lieu of Taxes	-	69,000	-	69,000
Trash Disposal	-	1,300,000	-	1,300,000
Intergovernmental	-	9,841,888	-	9,841,888
Special Assessments	-	-	-	-
Penalties and Interest on Taxes	-	240,000	-	240,000
Licenses and Permits	-	1,400,000	-	1,400,000
Fines and Forfeitures	-	34,000	-	34,000
Departmental and Other	-	1,408,000	-	1,408,000
Investment Income	-	25,000	-	25,000
Total Revenues	-	93,938,929	89,153	94,028,082
EXPENDITURES				
Current:				
General Government	940,550	6,844,842	444,024	8,229,416
Public Safety	10,025	8,923,452	308,993	9,242,470
Education	389,095	43,353,742	137,077	43,879,914
Public Works	1,026,401	6,717,012	857,506	8,600,919
Health and Human Services	8,577	738,145	11,359	758,081
Culture and Recreation	45,506	1,818,855	157,282	2,021,643
Pension Benefits	-	4,055,991	-	4,055,991
Employee Benefits	-	10,776,260	-	10,776,260
Property and Liability Insurance	-	351,575	-	351,575
State and County Charges	-	524,196	-	524,196
Debt Service:				
Principal	-	4,678,301	-	4,678,301
Interest	-	2,023,187	90,923	2,114,110
Total Expenditures	2,420,154	90,805,558	2,007,164	95,232,876
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,420,154)	3,133,371	(1,918,011)	(1,204,794)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	5,312,386	1,112,800	6,425,186
Premium from Issuance of Bonds and Notes	-	-	-	-
Transfers Out	-	(9,420,607)	(98,859)	(9,519,466)
Total Other Financing Sources (Uses)	-	(4,108,221)	1,013,941	(3,094,280)
NET CHANGE IN FUND BALANCE	(2,420,154)	(974,850)	(904,070)	(4,299,074)
Fund Balance - Beginning of Year	9,278,300	9,278,300	9,278,300	9,278,300
FUND BALANCE - END OF YEAR	\$ 6,858,146	\$ 8,303,450	\$ 8,374,230	\$ 4,979,226

See accompanying notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	76,480,203	\$ -	\$ 76,480,203	\$ 170,009
	3,680,109	-	3,680,109	280,109
	132,732	-	132,732	132,732
	89,647	-	89,647	20,647
	1,385,898	-	1,385,898	85,898
	10,069,596	-	10,069,596	227,708
	1,704	-	1,704	1,704
	273,214	-	273,214	33,214
	1,899,872	-	1,899,872	499,872
	34,962	-	34,962	962
	1,649,714	-	1,649,714	241,714
	92,678	-	92,678	67,678
	<u>95,790,329</u>	<u>-</u>	<u>95,790,329</u>	<u>1,762,247</u>
	6,557,737	985,516	7,543,253	686,163
	8,731,899	280,306	9,012,205	230,265
	43,154,653	434,464	43,589,117	290,797
	7,333,450	1,098,482	8,431,932	168,987
	654,020	14,371	668,391	89,690
	1,764,896	118,867	1,883,763	137,880
	4,055,537	-	4,055,537	454
	10,448,922	-	10,448,922	327,338
	351,301	-	351,301	274
	599,850	-	599,850	(75,654)
	4,678,301	-	4,678,301	-
	2,114,110	-	2,114,110	-
	<u>90,444,676</u>	<u>2,932,006</u>	<u>93,376,682</u>	<u>1,856,194</u>
	<u>5,345,653</u>	<u>(2,932,006)</u>	<u>2,413,647</u>	<u>3,618,441</u>
	6,425,361	-	6,425,361	175
	4,412,483	-	4,412,483	4,412,483
	(9,519,466)	-	(9,519,466)	-
	<u>1,318,378</u>	<u>-</u>	<u>1,318,378</u>	<u>4,412,658</u>
	6,664,031	(2,932,006)	3,732,025	8,031,099
	<u>9,278,300</u>	<u>-</u>	<u>9,278,300</u>	<u>-</u>
\$	<u><u>15,942,331</u></u>	<u><u>(2,932,006)</u></u>	<u><u>13,010,325</u></u>	<u><u>8,031,099</u></u>

**TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

PENSION PLAN SCHEDULES

**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
(SYSTEM)**

	<u>2015</u>	<u>2014</u>
<u>Total pension liability</u>		
Service cost	\$ 2,870,000	\$ 2,625,000
Interest	8,883,000	9,100,000
Differences between expected and actual experience	(3,441,000)	(6,639,000)
Changes of assumptions	9,600,000	-
Benefit payments, including refunds of member contributions	<u>(7,101,000)</u>	<u>-</u>
Net change in total pension liability	10,811,000	5,086,000
Total pension liability - beginning	<u>123,198,000</u>	<u>118,112,000</u>
Total pension liability - ending (a)	<u>\$ 134,009,000</u>	<u>\$ 123,198,000</u>
<u>Plan fiduciary net position</u>		
Contributions - employer	\$ 4,055,526	\$ 3,906,569
Contributions - member	2,084,000	1,822,431
Net investment income	(548,000)	7,702,031
Benefit payments, including refunds of member contributions	(7,101,000)	(6,639,000)
Administrative expense	(148,000)	(67,923)
Other	<u>371</u>	<u>(248,544)</u>
Net change in plan fiduciary net position	(1,657,103)	6,475,564
Plan fiduciary net position - beginning	<u>103,694,368</u>	<u>97,218,804</u>
Plan fiduciary net position - ending (b)	<u>\$ 102,037,265</u>	<u>\$ 103,694,368</u>
Net pension liability - ending (a) - (b)	<u>\$ 31,971,735</u>	<u>\$ 19,503,632</u>
Plan fiduciary net position as a percentage of the total pension liability	76.14%	84.17%
Covered-employee payroll	\$ 18,547,000	\$ 17,971,254
Net pension liability as a percentage of covered-employee payroll	172.38%	108.53%

**TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 4,055,526	\$ 3,906,569	3,845,592	3,777,163	3,623,792
Contributions in relation to the actuarially determined contribution	<u>4,055,526</u>	<u>3,906,569</u>	<u>3,845,592</u>	<u>3,777,163</u>	<u>3,623,792</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 18,547,000	\$ 17,971,254	17,971,254	17,195,132	17,195,132
Contributions as a percentage of covered-employee payroll	21.87%	21.74%	21.40%	21.97%	21.07%

(continued)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 3,515,362	\$ 3,323,793	3,227,543	3,100,000	2,800,000
Contributions in relation to the actuarially determined contribution	<u>3,515,362</u>	<u>3,323,793</u>	<u>3,227,543</u>	<u>3,100,000</u>	<u>2,800,000</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 16,879,293	\$ 16,879,293	15,863,491	15,863,491	14,092,068
Contributions as a percentage of covered-employee payroll	20.83%	19.69%	20.35%	19.54%	19.87%

(concluded)

SCHEDULE OF INVESTMENT RETURNS (SYSTEM)

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-0.53%	7.98%

**TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (SYSTEM)

	<u>2015*</u>	<u>2014*</u>
Town's proportion of the net pension liability	99.12%	99.14%
Town's proportionate share of the net pension liability	31,690,384	19,335,901
Town's covered-employee payroll	18,383,786	17,816,701
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.38%	108.53%
Plan fiduciary net position as a percentage of the total pension liability	76.14%	84.17%

*The amounts presented were determined as of December 31 within the applicable fiscal year

SCHEDULE OF TOWN CONTRIBUTIONS (SYSTEM)

	<u>2015</u>	<u>2014</u>
Actuarially Required Contribution	\$ 4,019,991	\$ 3,889,699
Contributions in Relation to the Actuarially Required Contribution	<u>4,019,991</u>	<u>3,889,699</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Town's Covered-Employee Payroll	\$ 18,383,786	\$ 17,816,701
Contributions as a Percentage of Covered Employee Payroll	21.87%	21.83%

SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (MTRS)

	<u>2016*</u>	<u>2015*</u>
Town's proportion of the net pension liability	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -
Commonwealth's proportionate share of the net pension liability associated with the Town	<u>101,190,658</u>	<u>78,050,395</u>
Total	<u>\$ 101,190,658</u>	<u>\$ 78,050,395</u>
Town's covered-employee payroll	\$ 31,305,359	\$ 30,105,390
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	55.38%	61.64%

*The amounts presented were determined as of June 30 of the previous year

**TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

SCHEDULE OF TOWN CONTRIBUTIONS (MTRS)

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Town's covered-employee payroll	 \$ 31,305,359	 \$ 30,105,390
 Contributions as a percentage of covered-employee payroll	 N/A	 N/A

**TOWN OF WINCHESTER, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the Town's other postemployment benefits plan:

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/15	\$ -	\$ 78,355,195	\$ 78,355,195	0.0%	\$ 54,100,000	144.8%
06/30/13	-	60,106,276	60,106,276	0.0%	44,699,816	134.5%
07/01/10	-	93,333,604	93,333,604	0.0%	42,210,838	221.1%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedule of funding progress are as follows:

- The 06/30/13 valuation reflects the Town's favorable claims experience during the period between the 07/01/10 valuation and the 06/30/13 valuation
- The 06/30/13 valuation reflects decreases in healthcare cost trend rates compared to the 07/01/10 valuation
- The 06/30/13 valuation reflects the expected change in the Town's health insurance contribution rate to 50% for all health plans effective as of July 1, 2015
- The 06/30/15 valuation reflects the assumptions that effective January 1, 2016, pre-June 30, 2004 retirees enrolled in certain health plans will contribute 30% and that effective July 1, 2017, all post-June 30, 2004 retirees will contribute 50%

**TOWN OF WINCHESTER, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE A BUDGETARY-GAAP RECONCILIATION

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

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 95,790,329	\$ 93,376,682	\$ 1,318,378	\$ 13,010,325
<u>Reclassifications</u>				
Activity of stabilization funds recorded in the general fund for GAAP purposes.....	141,414	-	(308,577)	9,483,231
Activity of OPEB fund recorded in the general fund for GAAP purposes.....	1,855	-	350,000	1,834,772
Reclassification of employee benefits to enterprise funds.....	-	(496,870)	(496,870)	-
<u>Adjustments</u>				
Net change in recording 60-day receipts.....	(20,532)	-	-	193,935
Net change in recording tax refunds payable.....	152,797	-	-	(170,420)
Net change in recording short-term interest accrual.....	-	(204,922)	-	(5,323)
Net change in recording workers' compensation payable.....	-	(167,183)	-	(148,860)
To record encumbrances and continuing appropriations.....	-	(2,932,006)	-	2,932,006
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 96,065,863</u>	<u>\$ 89,575,701</u>	<u>\$ 862,931</u>	<u>\$ 27,129,666</u>