

MARTHA'S VINEYARD LAND BANK

**FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION, AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2016

MARTHA'S VINEYARD LAND BANK

Financial Statements, Required Supplementary Information, and Supplemental Information

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Martha's Vineyard
Land Bank Commission
Edgartown, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Martha's Vineyard Land Bank (the "Land Bank"), which comprise the statement of net position as of June 30, 2016, the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Martha's Vineyard Land Bank as of June 30, 2016, and

the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-5, the schedule of proportionate share of the net pension liability on page 26, the schedule of contributions on page 27, the notes to the required supplementary information on page 28, and the schedule of funding progress – OPEB on page 29 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.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the Martha's Vineyard Land Bank's basic financial statements. The supplemental schedule of land, development rights and land improvements on page 30 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the Land Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martha's Vineyard Land Bank's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 17, 2016

MARTHA’S VINEYARD LAND BANK

Management’s Discussion and Analysis (Unaudited)

Fiscal Year Ended June 30, 2016

Financial Statements

The financial statements presented herein include all of the activity of the Martha’s Vineyard Land Bank (“the Land Bank”) using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement 34.

The financial statements are on an accrual basis of accounting and include all assets and liabilities of the Land Bank.

The Land Bank was created by Chapter 736 of the Acts of 1985 of the Commonwealth of Massachusetts. The Land Bank was established to acquire and manage land located within Martha’s Vineyard.

Statements of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report all of the activities of the Land Bank on an accrual basis of accounting. All of the current year’s revenues and expenses are recorded when they occurred regardless of when the cash is received or paid.

The two statements reflect the Land Bank’s net position and the changes in net position. Net position is the difference between total assets and total liabilities. Measuring net position is one way to determine the financial stability of an organization or an organization’s financial position. The statements of revenues and expenses show the change in net position from one year to the next year. This statement shows the components during the year that either increased or decreased the net position. Over time, increases or decreases in the Land Bank’s net position are one factor of measuring whether the financial health of the organization is improving or deteriorating.

MARTHA'S VINEYARD LAND BANK

Management's Discussion and Analysis (Unaudited) - Continued

Fiscal Year Ended June 30, 2016

Statements of Net Position and Statement of Revenues, Expenses, and Changes in Net Position - Continued

Net Position of the Land Bank for the fiscal years ended June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 11,705,728	\$ 10,492,188
Capital assets	189,737,547	184,407,195
Deferred outflow of resources	<u>387,460</u>	<u>351,985</u>
Total	<u>201,830,735</u>	<u>195,251,368</u>
Current and other liabilities	5,224,433	4,724,274
Long-term debt	64,295,747	67,218,834
Deferred inflows of resources	<u>198,755</u>	<u>214,534</u>
Total	<u>69,718,935</u>	<u>72,157,642</u>
Net position:		
Investment in capital assets, net	121,975,722	114,092,283
Restricted	773,529	773,290
Unrestricted	<u>9,362,549</u>	<u>8,228,153</u>
Total Net Position	\$ <u>132,111,800</u>	\$ <u>123,093,726</u>

Changes in net position for the fiscal years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 13,313,694	\$ 13,148,740
Operating expenses	<u>1,596,306</u>	<u>1,695,572</u>
Net Operating Income	11,717,388	11,453,168
Non-Operating Revenue (Expense)	<u>(2,699,314)</u>	<u>(3,241,149)</u>
Changes in Net Position	\$ <u>9,018,074</u>	\$ <u>8,212,020</u>

MARTHA'S VINEYARD LAND BANK

Management's Discussion and Analysis (Unaudited) - Continued

Fiscal Year Ended June 30, 2016

Statements of Net Position and Statement of Revenues, Expenses, and Changes in Net Position - Continued

Total net position increased 7.3% from 2015 to 2016 and 7.2% from 2014 to 2015. The majority of this increase was related to capital assets and is reflected in the increase in net investment in capital assets. Unrestricted net position increased by 13.8% from 2015 to 2016 and by 36.7% from 2014 to 2015.

Fiscal year 2016 had an increase in fee revenues of approximately \$2.4 million from 2015 levels. Fee revenues represent 100% and 83% of all operating revenues of the Land Bank for fiscal years ended June 30, 2016 and 2015, respectively.

The Land Bank increased its investment in land, development rights and land improvements during fiscal year 2016 by approximately \$5,368,000.

Contacting Land Bank Management

This financial report is designed to provide citizens with a general overview of the Land Bank's finances and to show the Land Bank's accountability for the money it receives. If there are questions about this report, please contact Martha's Vineyard Land Bank at P.O. Box 2057, Edgartown, MA 02539.

MARTHA'S VINEYARD LAND BANK

Statement of Net Position

June 30, 2016

MARTHA'S VINEYARD LAND BANK

Statement of Net Position

June 30, 2016

Assets and Deferred Outflow of Resources

Current Assets:

Cash and equivalents	\$ 5,690,253
Investments:	
Unrestricted	5,241,946
Restricted	<u>773,529</u>

Total Current Assets 11,705,728

Capital Assets:

Property and equipment, net of accumulated depreciation of \$630,065	288,453
Land, development rights and land improvements, net of accumulated depreciation of \$58,027	<u>189,449,094</u>

Total Capital Assets 189,737,547

Total Assets 201,443,275

Deferred Outflow of Resources:

Deferred loss on bond refunding	335,224
Net difference between projected and actual earnings of plan investments	45,829
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>6,407</u>

Total Deferred Outflows of Resources 387,460

Total Assets and Deferred Outflow of Resources \$ 201,830,735

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

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:

Current portion of notes payable	\$ 1,491,078
Current portion of bonds payable	1,975,000
Accounts payable and accrued expenses	<u>520,850</u>

Total Current Liabilities 3,986,928

Long-Term Liabilities:

Notes payable, net of current portion	3,473,066
Bonds payable, net of current portion	60,822,681
Net pension liability	552,157
Other post-employment benefits	<u>685,348</u>

Total Long-Term Liabilities 65,533,252

Total Liabilities 69,520,180

Deferred Inflows of Resources:

Deferred gain on bond refunding	<u>198,755</u>
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Net Position:

Investment in capital assets, net	121,975,722
Restricted	773,529
Unrestricted	<u>9,362,549</u>

Total Net Position 132,111,800

Total Liabilities, Deferred Inflows of Resources and Net Position \$ 201,830,735

MARTHA'S VINEYARD LAND BANK

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2016

Operating Revenues:	
Fee revenues	\$ 13,313,694
Operating Expenses:	
Administrative	<u>1,596,306</u>
Operating Income	11,717,388
Non-operating Revenues and Expenses:	
Interest income	82,949
Interest expense	<u>(2,782,263)</u>
Total Non-operating Revenues and Expenses	<u>(2,699,314)</u>
Increase in Net Position	9,018,074
Net Position, Beginning of Year	<u>123,093,726</u>
Net Position, End of Year	<u>\$ 132,111,800</u>

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

MARTHA'S VINEYARD LAND BANK

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash Flows from Operating Activities:	
Cash received from fee revenue	\$ 13,313,694
Cash payments to suppliers	(905,456)
Cash paid to employees for services	<u>(792,280)</u>
Net Cash Provided by Operating Activities	<u>11,615,958</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments on notes payable	(1,216,078)
Principal payments on bonds payable	(1,880,000)
Interest payments on notes and bonds	<u>(2,788,383)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(5,884,461)</u>
Cash Flows from Investing Activities:	
Acquisition of land, development rights and land improvements	(2,243,296)
Acquisition of property and equipment	(7,609)
Interest on investments	<u>980</u>
Net Cash Applied to Investing Activities	<u>(2,249,925)</u>
Net Increase in Cash and Equivalents	3,481,572
Cash and Equivalents, Beginning of Year	<u>2,208,681</u>
Cash and Equivalents, End of Year	<u>\$ 5,690,253</u>
Supplemental Non-Cash Activity:	
Land acquired through notes payable	<u>\$ 775,000</u>
Deposit used to acquire land	<u>\$ 2,350,000</u>

MARTHA'S VINEYARD LAND BANK

Statement of Cash Flows - Continued

For the Year Ended June 30, 2016

Reconciliation of Increase in Net Position to Net Cash Provided by Operating Activities:

Operating Income	<u>\$ 11,717,388</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	45,553
Amortization of bond related accounts	(226,290)
Changes in assets and liabilities:	
Accounts payable and accrued expenses	(14,242)
Net pension activity	(11,246)
Other post employment benefits payable	<u>104,795</u>
 Net Adjustments	 <u>(101,430)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 11,615,958</u>

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

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements

June 30, 2016

Note 1 - Summary of Significant Accounting Policies

Business Activity

The Martha's Vineyard Land Bank (the "Land Bank") was created by Chapter 736 of the Acts of 1985 of the Commonwealth of Massachusetts to acquire and manage open space and resource protection on the island of Martha's Vineyard. The Land Bank is administered by the Martha's Vineyard Land Bank Commission (the "Commission") comprised of seven members, one elected from each of the six towns, which constitute the island of Martha's Vineyard, and one at-large member selected by the Department of Environmental Affairs of the Commonwealth. Each of the towns is required to appoint an advisory board to assist the Commission. Land purchases by the Land Bank are subject to approval by (a) a majority vote of each town's advisory board, in whose town the land is located, irrespective of whether the town's fund is used for the purchase and (b) the Commission. The law provides that the operations and acquisitions of the Land Bank will be financed principally by fees imposed upon certain transfers of real property interests in the member towns that represent the Land Bank and income earned from the investment of the Land Bank's surplus funds. The Land Bank may also issue bonds and notes to raise funds to acquire land and interests in land. The Land Bank holds title to certain properties that have been acquired and holds development rights to other properties.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Land Bank uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements.

Revenue Recognition

Fee revenue is equal to two percent of the purchase price upon certain transfers of real property and is recognized on transfer. Interest income generated on investments is recognized as earned. Donations in the form of cash or property are recognized upon receipt.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Cash and Equivalents

The Land Bank considers securities purchased within three months of their date of maturity to be cash equivalents. The carrying amount approximates fair value for cash and equivalents.

Investments

Investments are recorded at fair value. Purchases and sales of investments are recorded on a trade-date basis.

Unrestricted investments represent certificates of deposit, money market funds, and repurchase agreements. Unrestricted investments are not insured and involve risk. Restricted investments represent funds being held by the bond trustee as a reserve fund to provide principal and interest payments. These investments have been pledged as security on revenue bonds.

The Land Bank reports its investments in equity securities with readily determinable fair values at their fair value on the statements of net position, with the corresponding unrealized gains and losses included in the Statement of Net Position. Realized gains and losses are determined on the basis of the first-in and first-out method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using straight-line methods over the estimated useful asset lives.

Income Taxes

The Land Bank is exempt from federal and state income taxes.

Net Position

Resources are classified, for accounting purposes, into the following three net position categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Land Bank or by the passage of time.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Net Position - Continued

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the Land Bank.

New Governmental Accounting Pronouncements

GASB Statement 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 78 - Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans is effective for periods beginning after December 15, 2015 and amends Statement 68 to exclude certain pensions provided to employees of state or local governments that, among other factors, are used to provide pension benefits to governmental and non-governmental employees. The Statement establishes requirements for the recognition and measurement of pension expense, expenditures, and liabilities, note disclosures and required supplementary information. Management has not completed its review of the requirements of this standard and its applicability.

Note 2 - Cash and Equivalents

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the financial institution has pledged assets to the Land Bank to guarantee recovery of balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and Depositors Insurance Fund (DIF). The DIF insures all balances in excess of the amounts insured by the FDIC. As a result, the Land Bank does not have amounts exposed to custodial credit risk at June 30, 2016.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 3 - Investments

The Land Bank categorizes short-term investments according to the level of risk assumed. At June 30, 2016, all investments are insured, registered, or held by the Land Bank's agent in the Land Bank's name. The Land Bank currently follows investment policies largely defined by the Commonwealth of Massachusetts.

Concentration of Credit Risk

At June 30, 2016, the Land Bank had invested \$5,141,144 with single issuers representing 85.4% of the Land Bank's investment.

<u>Investment Type</u>	June 30, 2016				
	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of deposit	\$ 5,076,942	\$ -	\$ 5,076,942	\$ -	\$ -
Money market	165,004	165,004	-	-	-
U.S. Treasury bonds and notes	<u>773,529</u>	<u>773,529</u>	-	-	-
Total	\$ <u>6,015,475</u>	\$ <u>938,533</u>	\$ <u>5,076,942</u>	\$ -	\$ -

The following table summarizes the quality ratings of the Land Bank's debt investments at June 30, 2016:

	<u>Quality Ratings</u>				
	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Certificates of deposit	\$ 5,076,942	\$ -	\$ -	\$ -	\$ 5,076,942
Money market	165,004	-	-	-	165,004
U.S. Treasury bonds and notes	<u>773,529</u>	-	<u>773,529</u>	-	-
Debt Investments	\$ <u>6,015,475</u>	\$ -	\$ <u>773,529</u>	\$ -	\$ <u>5,241,946</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 3 - Investments - Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Through its investment policy, the Land Bank manages its exposure to fair value losses arising from increasing interest rates by limiting the average duration of an actively managed fixed income portfolio to no more than five years.

Fair Value Hierarchy

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of fiduciary net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date; Level 2 inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data; Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. At June 30, 2016, the Land Bank's investments are all considered Level 1 within the fair value hierarchy.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 4 - Capital Assets

Capital Assets consist of the following at June 30, 2016:

	<u>Estimated lives (in years)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not depreciated:						
Land		\$ 105,350	\$ -	\$ -	\$ -	\$ 105,350
Development rights		4,991,110	-	-	-	4,991,110
Land - acquisitions		<u>178,793,116</u>	<u>5,352,431</u>	-	-	<u>184,145,547</u>
Total not depreciated		<u>183,889,576</u>	<u>5,352,431</u>	-	-	<u>189,242,007</u>
Capital assets depreciated:						
Buildings and improvements	11-40	233,589	-	-	-	233,589
Furnishings and equipment	3-10	613,491	7,609	-	-	621,100
Land improvements	15-40	<u>358,631</u>	<u>15,865</u>	-	-	<u>374,496</u>
Total depreciated		<u>1,205,711</u>	<u>23,474</u>	-	-	<u>1,229,185</u>
Less accumulated depreciation:						
Buildings and improvements		121,526	6,426	-	-	127,952
Furnishings and equipment		508,539	35,095	-	-	543,634
Land improvements		<u>58,027</u>	<u>4,032</u>	-	-	<u>62,059</u>
Total accumulated depreciation		<u>688,092</u>	<u>45,553</u>	-	-	<u>733,645</u>
Net depreciable assets		<u>517,619</u>	<u>(22,079)</u>	-	-	<u>495,540</u>
Capital Assets, net		<u>\$ 184,407,195</u>	<u>\$ 5,330,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,737,547</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2016 consist of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes payable	\$ 5,405,222	\$ 775,000	\$ 1,216,078	\$ 4,964,144	\$ 1,491,078
Bonds payable	<u>64,909,690</u>	<u>-</u>	<u>2,112,009</u>	<u>62,797,681</u>	<u>1,975,000</u>
Total notes and bonds payable	<u>70,314,912</u>	<u>775,000</u>	<u>3,328,087</u>	<u>67,761,825</u>	<u>3,466,078</u>
Other long-term liabilities:					
Pension payable	506,430	45,727	-	552,157	-
Other post-employment benefit	<u>580,553</u>	<u>104,795</u>	<u>-</u>	<u>685,348</u>	<u>-</u>
Total other long-term liabilities	<u>1,086,983</u>	<u>150,522</u>	<u>-</u>	<u>1,237,505</u>	<u>-</u>
Total Long-Term Liabilities	\$ <u>71,401,895</u>	\$ <u>925,522</u>	\$ <u>3,328,087</u>	\$ <u>68,999,330</u>	\$ <u>3,466,078</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - **Long-Term Liabilities - Continued**

Notes Payable

Notes payable at June 30 2016, are as follows:

Philip J. Norton; annual principal payments of \$100,000, plus interest at 1.5%, due August 2016, secured by land.	\$ 100,000
Arnold M. Fischer 1994 Trust; annual principal payments of \$277,778, plus interest at 1.50%, due September 2022, secured by land.	1,944,444
James A. Richards and Lynne G. Silva; annual principal payments of \$150,000, plus interest at 1.73%, due February 2019, secured by land.	450,000
Emily A. and Oliver J. Rothschild; annual principal payments of \$775,000, plus interest at 0.42%, due October 2016, secured by land.	775,000
Ann B. Floyd: annual principal payments of \$688,300 for fiscal year 2016 and \$188,300 thereafter, plus interest at 3.06% due June 30, 2025, secured by land.	<u>1,694,700</u>
Total notes payable	4,964,144
Less: current portion	<u>(1,491,078)</u>
Notes payable, net of current portion	\$ <u>3,473,066</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - **Long-Term Liabilities - Continued**

Notes Payable - Continued

Future principal maturities of long-term debt subsequent to June 30, 2016 are as follows:

Years Ending <u>June 30,</u>	
2017	\$ 1,491,078
2018	616,078
2019	616,078
2020	446,078
2021	466,078
2022-2025	<u>1,308,754</u>
	\$ <u>4,964,144</u>

Bonds Payable

Bonds payable at June 30 2016, secured by future transfer fees and designated investments consist of the following:

Land Acquisition Bonds, Series 2006 Revenue, dated December 21, 2006, bearing interest at 4% to 5%, matures at various dates through May 1, 2036.	\$ 23,560,000
Land Acquisition Bonds, Series 2014 Revenue, dated November 13, 2014, bearing interest at 3% to 5%, matures at various dates through May 1, 2034.	<u>35,025,000</u>
	58,585,000
Plus: bond premium net of accumulated amortization of \$155,090, Series 2006.	332,399
Plus: bond premium net of accumulated amortization of \$431,142, Series 2014.	<u>3,880,282</u>
Total bonds payable	62,797,681
Less: current portion	<u>(1,975,000)</u>
Bonds payable, net of current portion	\$ <u>60,822,681</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Aggregate payments of principal and interest on bonds payable subsequent to June 30, 2016 are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,975,000	\$ 2,574,751	\$ 4,549,751
2018	2,070,000	2,476,001	4,546,001
2019	2,205,000	2,372,500	4,577,500
2020	2,290,000	2,284,300	4,574,300
2021	2,385,000	2,192,700	4,577,700
2022 - 2026	13,565,000	9,331,170	22,896,170
2027 - 2031	16,890,000	6,024,116	22,914,116
2032 - 2036	<u>17,205,000</u>	<u>2,022,974</u>	<u>19,227,974</u>
	<u>\$ 58,585,000</u>	<u>\$ 29,278,512</u>	<u>\$ 87,863,512</u>

Note 6 - **Pensions**

Defined Benefit Plan Description

The Land Bank contributes to the Dukes County Contributory Retirement System (the "System"), a cost-sharing, multiple-employer defined benefit pension plan administered by the County of Dukes County Retirement Board. All full-time employees of the Land Bank are members of the System. The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's law during those years are funded by the Commonwealth and are deposited into the pension fund. Cost-of living adjustments granted after 1997 must be approved by the County of Dukes County Retirement Board and funded by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System at 9 Airport Road, RRI Box 862, Vineyard Haven, Massachusetts 02568.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Pensions - Continued**

Benefit Provisions

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

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 are not eligible for retirement prior to age 60.

Contributions

The System's 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 System's retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. Member contributions to the System vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>Percentage of Compensation</u>
Prior to 1975	5% of regular compensation
1975-1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police, which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Pensions - Continued**

Contributions - Continued

The Land Bank is required to contribute at an actuarially determined rate; the rate was 13.41% of annual covered payroll for the fiscal year ended June 30, 2016. The Land Bank contributed \$88,825 for the fiscal year ended June 30, 2016, equal to 100% of the required contributions for the year.

Pension Liabilities, Pension Expense, and Deferred Outflow of Resources

At June 30, 2016, the Land Bank reported a liability of \$552,157 for its proportionate share of the net pension liability related to its participation in the System. The net pension liability was measured as of December 31, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to December 31, 2015. The Land Bank's proportion of the net pension liability was based on the proportionate share of total pension liability as of January 1, 2015. At June 30, 2016, the Land Bank's proportion was 1.405%. For the year ended June 30, 2016, the Land Bank recognized pension expense of \$77,579. At June 30, 2016, the Land Bank reported deferred outflow of resources related to pensions from the following sources:

Net differences between projected and actual earnings on pension plan investments	\$ 45,829
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>6,407</u>
Total	\$ <u>52,236</u>

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

Years Ending <u>June 30,</u>	
2017	\$ 12,442
2018	12,442
2019	12,442
2020	12,442
2021	<u>2,468</u>
	\$ <u>52,236</u>

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Pensions - Continued**

Actuarial Assumptions

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

Inflation	not explicitly assumed
Salary increases	4.25% to 6.00% for general employees 4.75% to 7.00% for public safety
Investment rate of return	7.75%

Mortality rates were based on pre-retirement of RP-2000 employee mortality table projected to 2020 using scale AA and post-retirement of RP-2000 employee mortality table projected to 2015 with scale AA.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method in which best-estimate ranges of expected future real 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	40.00%	7.00%
International equity	15.00%	4.00%
Fixed income	25.00%	2.40%
Real estate	10.00%	7.10%
Timber	2.50%	4.90%
Alternatives - private equity	5.00%	12.10%
Hedge funds	<u>2.50%</u>	2.70%
Total	<u>100.00%</u>	

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the 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 calculated using the discount rate of 7.75 percent as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
\$ 808,907	\$ 552,157	\$ 333,030

Note 7 - **Other Post-Employment Benefits (OPEB)**

Plan Description

The Land Bank's healthcare plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Land Bank. The Plan provides medical, dental, and life insurance benefits to eligible retirees and their covered dependents. Chapter 32B of the Massachusetts General Law assigns the authority to establish and amend benefit provisions. The Plan does not issue a stand-alone financial report.

Funding Policy

The contribution requirements of plan members and the Land Bank are established and may be amended by the state legislature. The required contribution is based on the current pay-as-you-go financing requirement. During the year ended June 30, 2016, the Land Bank set aside \$25,000, in a specially designated account at Massachusetts Municipal Depository Trust to partially fund the unfunded liability. The total balance in this account was \$100,802 at June 30, 2016.

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Other Post-Employment Benefits (OPEB) - Continued**

Annual OPEB Cost and Net OPEB Obligation

The Land Bank recognizes an expense equal to the annual required contribution (ARC) of the employer, determined actuarially in accordance with GASBS 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for the year ended June 30, 2016 was determined based on an actuarial valuation performed as of July 1, 2014. The Land Bank's annual OPEB cost and the net OPEB obligation for the year ended June 30, 2016 were as follows:

Annual required contribution (ARC)	\$ 96,610
Interest on net OPEB obligation	23,559
Adjustments to ARC	<u>(9,778)</u>
Annual OPEB Cost	110,391
Contributions made (including subsidy)	(5,596)
Net obligation at beginning of year	<u>580,533</u>
Net obligation at end of year	\$ <u>685,328</u>

The Land Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and its net OPEB obligation for 2016 and the two years preceding are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 88,407	5.6%	\$ 497,084
June 30, 2015	\$ 88,407	5.6%	\$ 580,533
June 30, 2016	\$ 110,391	5.1%	\$ 685,328

MARTHA'S VINEYARD LAND BANK

Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Other Post-Employment Benefits (OPEB) - Continued**

Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2014 (the date of the most recent valuation), was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,371,302
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ <u>1,371,302</u>
Funded ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Annual Covered Payroll (Active Plan Members)	\$ 657,818
UAAL as a Percentage of Covered Payroll	208.5%

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 rate. 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 and benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Plan and include the types of benefits provided at the time of each valuation. The actuarial 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 prospective of the calculations.

The projected unit credit actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 4.0% discount rate; an annual healthcare cost trend rate of 7.5% progressively declining to 5% after 5 years; and a 30 year level percent of pay method of amortization assumed to be increasing at 4.5% per year.

**REQUIRED SUPPLEMENTARY
INFORMATION**

MARTHA'S VINEYARD LAND BANK

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Valuation date	January 1, 2014	January 1, 2014
Measurement date	December 31, 2015	December 31, 2014
Proportion of the collective net pension liability	1.405%	1.405%
Proportionate share of the collective net pension liability	\$ 552,157	\$ 506,430
Covered-employee payroll	\$ 662,624	\$ 637,138
Proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	83.33%	79.49%
Plan fiduciary net position as a percentage of the plan's total pension liability	75.61%	76.17%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 30, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

MARTHA'S VINEYARD LAND BANK

Schedule of Contributions (Unaudited)

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 88,825	\$ 105,995
Contributions in relation to the contractually required contribution	<u>88,825</u>	<u>105,995</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 662,624	\$ 637,138
Contribution as a percentage of covered-employee payroll	13.41%	16.64%

Notes:

Employers participating in the Dukes County Contributory Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 30, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

MARTHA'S VINEYARD LAND BANK

Notes to the Required Supplementary Information (Unaudited)

June 30, 2016

Note 1 - **Changes in Assumptions**

Since Dukes County Retirement System used roll forward procedures to determine the December 31, 2015 Total Pension Liability, there are no differences between expected and actual economic experience, proportionate changes or change in assumption.

MARTHA'S VINEYARD LAND BANK

Schedule of Funding Progress – OPEB (Unaudited)

June 30, 2016

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (b-a)	Funded ratio (a/b)	Covered payroll (c)	Unfunded liability as percentage of covered payroll
7/1/2014	\$ -	\$ 1,371,302	\$ 1,371,302	0.00%	\$657,818	208.5%
7/1/2012	\$ -	\$ 1,125,757	\$ 1,125,757	0.00%	\$615,291	183.0%
7/1/2010	\$ -	\$ 1,071,938	\$ 1,071,938	0.00%	\$531,125	201.8%

SUPPLEMENTAL INFORMATION

MARTHA'S VINEYARD LAND BANK

Schedule of Land, Development Rights and Land Improvements (Unaudited)

For the Year Ended June 30, 2016

	<u>Chilmark</u>	<u>Edgartown</u>	<u>Aquinnah Gay Head</u>	<u>Oak Bluffs</u>	<u>Tisbury</u>	<u>West Tisbury</u>	<u>Central Fund</u>	<u>Total</u>
Total Land, Development Rights and Land Improvements, June 30, 2015	\$ 19,459,326	\$ 39,005,738	\$ 2,871,592	\$ 10,475,777	\$ 13,088,896	\$ 14,119,083	\$ 85,064,418	\$ 184,084,830
Additions during year:								
Fulling Mill	1,065,000	-	-	-	-	-	716,131	1,781,131
Meneshma Neck	-	-	-	-	-	-	5,260	5,260
Ripley's Field	-	-	-	-	-	-	599,502	599,502
Music Street Fields	-	-	-	-	-	390	260	650
Manaquayak (Up Island Preserve)	-	-	-	-	-	1,410,000	948,988	2,358,988
Toad Rock	-	-	61,800	-	-	-	41,200	103,000
Goat enclosure	-	-	-	-	-	-	15,865	15,865
Wapatequa	-	-	-	300,000	-	-	203,900	503,900
Less: Depreciation of land improvements	-	-	-	-	-	-	(4,032)	(4,032)
Total Land, Development Rights and Land Improvements, June 30, 2015	<u>\$ 20,524,326</u>	<u>\$ 39,005,738</u>	<u>\$ 2,933,392</u>	<u>\$ 10,775,777</u>	<u>\$ 13,088,896</u>	<u>\$ 15,529,473</u>	<u>\$ 87,591,492</u>	<u>\$ 189,449,094</u>

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



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

To the Martha's Vineyard
Land Bank Commission
Edgartown, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Martha's Vineyard Land Bank (the "Land Bank"), which comprise the statement of net position as of June 30, 2016, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Martha's Vineyard Land Bank's basic financial statements, and we have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 17, 2016