

**TOWN OF SALISBURY, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2015

# TOWN OF SALISBURY, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Salisbury, 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 Salisbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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 of 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 those 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund,

and the aggregate remaining fund information of the Town as of June 30, 2015 and the respective changes in financial position where applicable and cash flows thereof for the year then ended in conformity 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, the schedules of the Town's proportionate share of net pension liability and the Town's contributions to pension plan, the funding and contribution progress for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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.

#### *Implementation of New Accounting Standards*

As disclosed in the Note III to the financial statements, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during fiscal year 2015. Our opinion was not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates  
Certified Public Accountants  
November 18, 2015

## Management's Discussion and Analysis

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

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$32.4 million (*total net position*). Of this amount, approximately \$3.0 million represented net position of governmental activities and \$29.5 million represented net position of the business-type activities.
- The government's total net position increased by over \$5.0 million or approximately 18.0% year to year. The governmental activities increased net position by nearly \$4.2 million, while the business-type activities increased net position by approximately \$0.8 million over the prior year.
- The Town's Unassigned Fund Balance reported in the General Fund was approximately \$1.7 million (7.8% of General Fund expenditures); and the total fund balance in the General Fund was over \$1.8 million (8.6% of General Fund expenditures). Within the Nonmajor Funds, which reported total fund balances of \$0.5 million, the Town had restricted fund balances that exceeded \$1.3 million and total unassigned deficits of over \$0.9 million. In addition, a small portion of the Nonmajor Funds represented amounts that are nonspendable as corpus of endowment of about \$54,000. The Town also presented a major fund for library construction that had an unassigned deficit of approximately \$4.2 million, and a major fund for capital projects which reported an unassigned deficit of over \$1 million, both due to construction funded from short-term borrowings.
- The Town's total long-term debt decreased by over \$0.7 million during the fiscal year as a result of anticipated scheduled pay downs of principal of \$1.2 million exceeding new issuances of just under \$0.5 million.

### **Overview of the Financial Statements**

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

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of 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 assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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 and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include water and sewer enterprise funds.

**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 of the Town can be divided into two categories: governmental funds, and proprietary funds.

Governmental Accounting Standards Board Statement #54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed – amounts constrained by a government using its highest level of decision-making authority
- Assigned – amounts a government intends to use for a particular purpose
- Unassigned – amounts that are not constrained at all will be reported in the General Fund

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Reconciliations are provided within the financial statements to facilitate this comparison.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund and Library Construction Fund. Data from the other governmental funds are combined into a single, aggregated presentation entitled Nonmajor Funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes after the footnotes to the financial statements.

**Proprietary Funds.** *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for enterprise funds of the water and sewer activities.

**Notes to the 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.

**New Significant Accounting Standards Implemented** – In fiscal year 2015, the Town adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards board (GASB) that relate to pension activity:

- Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,*” and
- Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”

Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Town’s defined benefit pension plans. This statement replaces the requirements of prior GASB statements impacting account and disclosure of pensions.

The significant impact to the Town of implementing Statement No. 68 is the reporting of the Town’s unfunded pension liability on the Town’s full accrual basis of accounting government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement.

In order to implement the Statement, a prior period adjustment was made to the Town’s July 1, 2014 net position. This prior period adjustment decreased the Town’s net position by \$12,483,930 and reflects the reporting of: 1) net pension liabilities and 2) deferred outflows of resources.

The adoption of Statement No. 68 has no impact on the Town’s governmental fund financial statements, which continue to report expenditures equal to the amount of the Town’s actuarially determined contribution (formerly referred to as the “annual required contribution”). The calculation of pension contributions is also unaffected by this Statement.

## Government-wide Financial Analysis

The condensed statement of net position is as follows:

<b>Exhibit I - Net Position</b>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b><u>Assets</u></b>						
Current and other assets	\$ 7,821,461	\$ 11,786,731	\$ 9,916,007	\$ 9,381,432	\$ 17,737,468	\$ 21,168,163
Capital assets, net	18,969,659	10,386,345	37,790,637	37,801,930	56,760,296	48,188,275
Total assets	<u>26,791,120</u>	<u>22,173,076</u>	<u>47,706,644</u>	<u>47,183,362</u>	<u>74,497,764</u>	<u>69,356,438</u>
<b><u>Deferred Outflows of Resources</u></b>	-	-	-	-	-	-
<b><u>Liabilities</u></b>						
Long-term liabilities	15,931,129	4,091,540	16,321,766	16,112,947	32,252,895	20,204,487
Other liabilities	7,925,790	8,143,669	1,855,199	1,142,197	9,780,989	9,285,866
Total liabilities	<u>23,856,919</u>	<u>12,235,209</u>	<u>18,176,965</u>	<u>17,255,144</u>	<u>42,033,884</u>	<u>29,490,353</u>
<b><u>Deferred Inflows of Resources</u></b>	46,929	-	5,187	-	52,116	-
<b><u>Net Position</u></b>						
Net investment in capital assets	12,220,024	9,256,143	22,144,590	21,038,009	34,364,614	30,294,152
Restricted	1,418,447	1,264,709	-	-	1,418,447	1,264,709
Unrestricted	(10,751,199)	(582,985)	7,379,902	8,890,209	(3,371,297)	8,307,224
Total Net Position	<u>\$ 2,887,272</u>	<u>\$ 9,937,867</u>	<u>\$ 29,524,492</u>	<u>\$ 29,928,218</u>	<u>\$ 32,411,764</u>	<u>\$ 39,866,085</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$32.4 million (*total net position*). This reflects an increase from the preceding year by over \$5 million, primarily due to nearly \$5.0 million in capital grants and contributions for governmental activities capital projects.

Business-type activities increased net position by approximately \$0.8 million as operating results exceeded expectations.

By far the largest portion (approximately \$34.4 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's 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 (approximately \$1.4 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is in deficit by approximately \$3.4 million. This has resulted from the recognition of other postemployment benefits of approximately \$2.3 million since inception in 2009 as well as recognition of approximately \$12.4 million of net pension liabilities with the implementation of GASB Statement 68 in fiscal year 2015.

The condensed statement of changes in net position is as follows:

**Exhibit II - Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 1,690,146	\$ 1,878,967	\$ 4,107,314	\$ 3,845,308	\$ 5,797,460	\$ 5,724,275
Operating grants and contributions	832,517	851,593	530,767	2,856	1,363,284	854,449
Capital grants and contributions	4,785,235	2,248,041	169,492	-	4,954,727	2,248,041
General revenues:						
Property taxes	17,608,559	16,571,696	-	-	17,608,559	16,571,696
Intergovernmental	832,182	771,441	296,632	7,499	1,128,814	778,940
Other	1,547,658	1,193,016	23,076	139,696	1,570,734	1,332,712
<b>Total Revenues</b>	<b>27,296,297</b>	<b>23,514,754</b>	<b>5,127,281</b>	<b>3,995,359</b>	<b>32,423,578</b>	<b>27,510,113</b>
<b><u>Expenses</u></b>						
General government	2,174,171	2,179,745	-	-	2,174,171	2,179,745
Public safety	6,002,431	5,809,627	-	-	6,002,431	5,809,627
Education	11,358,578	11,072,636	-	-	11,358,578	11,072,636
Public works	1,588,486	1,372,489	-	-	1,588,486	1,372,489
Health and human services	684,026	585,545	-	-	684,026	585,545
Culture and recreation	335,896	610,735	-	-	335,896	610,735
Community development	870,857	534,617	-	-	870,857	534,617
Interest expense	91,070	52,042	-	-	91,070	52,042
Water	-	-	2,204,586	2,048,969	2,204,586	2,048,969
Sewer	-	-	2,083,868	1,704,839	2,083,868	1,704,839
<b>Total Expenses</b>	<b>23,105,515</b>	<b>22,217,436</b>	<b>4,288,454</b>	<b>3,753,808</b>	<b>27,393,969</b>	<b>25,971,244</b>
Increase in net position before transfers	4,190,782	1,297,318	838,827	241,551	5,029,609	1,538,869
Transfers	-	204,278	-	(204,278)	-	-
Change in net position	4,190,782	1,501,596	838,827	37,273	5,029,609	1,538,869
Net position, beginning of year	9,937,867	8,436,271	29,928,218	30,120,190	39,866,085	38,556,461
Restatement for net pension liability	(11,241,377)	-	(1,242,553)	-	(12,483,930)	-
Net position, beginning of year, as restated	(1,303,510)	8,436,271	28,685,665	30,120,190	27,382,155	38,556,461
Net position, end of year	\$ 2,887,272	\$ 9,937,867	\$ 29,524,492	\$ 30,157,463	\$ 32,411,764	\$ 40,095,330

**Governmental Activities.** The Town relies significantly on property taxes, which during 2015 were approximately \$1.0 million greater than the prior year due to proposition 2 ½ increases. Capital grants and contributions of \$4.8 million, including \$1.5 million in coastal area improvement grants for seawalls, accounted for 17.5% of the Town's fiscal year 2015 revenues, up from 9.6% in 2014. No other category of revenue represented more than 10% of total revenues in fiscal year 2015 or 2014.

Major expenses during fiscal 2015 were for education and public safety which comprised 49.2% and 26.0%, respectively, of total expenses. Both categories were consistent in amount with the prior year amounts. No other expense types were greater than 10% of total expenses in fiscal year 2015 or 2014.

**Business-type Activities.** The primary revenue sources for both water and sewer activities is comprised of usage fees for metered services and system connections which represented approximately 80.1% of total revenues. Water and sewer expenses represented 100% of total business-type expenses. Of the total

expenses, approximately 56.9% pertains to direct operational costs with the remaining costs represented by debt service (approximately 14.1%) and current year depreciation (approximately 29.0%).

### **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance deficit of approximately \$2.9 million. This is a decrease of \$4.6 million from the previous year as the Town spent \$5.2 million on construction of a new library facility (offset by \$1.0 million in revenue related to this project), and increases in the general fund of \$0.2 million were offset by decreases in the other funds of \$1.1 million. Of the ending fund balance approximately \$1.6 million is earmarked for specific expenditures and *unassigned fund balance* is in a deficit of \$4.5 million due to construction funded from short-term notes.

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 was approximately \$1.7 million, while total fund balance reached \$1.8 million. 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 fund expenditures. Unassigned fund balance represents approximately 7.8% of total General Fund expenditures, while total fund balance represents approximately 8.6% of that same amount.

The Town reported a restricted fund balance of approximately \$1.3 million in the Nonmajor Fund and an unassigned deficit balance of nearly \$0.9 million, \$4.2 million, and \$1.1 million in the Nonmajor, Library Construction, and Capital Projects Funds, respectively. These deficits were due to construction funded from short-term notes.

**Proprietary Funds** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the Water Fund was approximately \$3.0 million; and net position of the Sewer Fund amounted to approximately \$26.5 million.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were minor. The schedule of budgetary information is provided as *Required Supplementary Information*.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to approximately \$56.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, machinery and equipment and reflects an increase of approximately \$8.6 million, net of depreciation, as a result of approximately \$10.2 million of capital asset additions offset by over \$1.6 million of depreciation.

The Town has undergone significant capital improvements over the past several years. These include major improvements and additions to its town hall, roads, and recreational facilities; along with the more recent expansion of its sewerage system and a water tank replacement. A significant portion of these improvements were funded with reimbursements from grants provided by the federal government and the Commonwealth of Massachusetts. Additional information on the Town capital assets can be found in Note C. of this report.

**Long-term Debt.** At the end of the current fiscal year, the Town had total debt outstanding of approximately \$16.3 million. Of this amount approximately \$1.4 million represents general obligation bonds of governmental activities and approximately \$14.9 million represents general obligation bonds of business-type activities.

The Town's total long-term debt decreased by over \$0.7 million during the fiscal year as a result of anticipated scheduled pay downs of principal of \$1.2 million exceeding new issuances of just under \$0.5 million.

The last bond rating received by the Town was an "Aa3" as set by Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$74.1 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town's debt can be found in Note E. and Note F. of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- Consistent with both state and national work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. This trend is continuing to improve in fiscal 2016. Unemployment rates are now trending at or near their pre-recession levels.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2016 is expected to be approximately 80.7% of the entire property tax levy. The Town relies to a certain extent on its commercial, industrial and personal property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.
- Consistent with state and national indices, the Town's housing market experienced a downward trend from 2005-2010. Housing prices began to stabilize during fiscal year 2011 and recently are beginning to see an upward trend. The Town expects housing prices to rebound as the economy rebounds, but the nature, extent and timing of such a rebound cannot be estimated at the present time.
- The Town expects to set its tax rate for fiscal year 2016 in December 2015.

The above items were considered when the Town developed its budget for fiscal year 2016.

### **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 the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,112,525	\$ 5,514,638	\$ 9,627,163
Receivables (net):			
Property taxes	1,934,908	-	1,934,908
User fees	-	1,016,630	1,016,630
Departmental and other	400,000	-	400,000
Betterments	-	3,048,237	3,048,237
Intergovernmental	1,368,811	336,502	1,705,313
Other assets	5,217		5,217
Capital assets, not being depreciated	12,401,270	3,166,159	15,567,429
Capital assets, net of accumulated depreciation	6,568,389	34,624,478	41,192,867
<b>Total Assets</b>	<b>26,791,120</b>	<b>47,706,644</b>	<b>74,497,764</b>
<b>Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>			
Warrants and accounts payable	322,744	92,805	415,549
Accrued payroll and withholdings	157,937	8,217	166,154
Accrued interest expense	-	251,833	251,833
Retainage payable	264,004	-	264,004
Other liabilities	13,405	2,344	15,749
Bond anticipation notes	7,167,700	1,500,000	8,667,700
Noncurrent liabilities:			
Due within one year	500,550	945,115	1,445,665
Due in more than one year	15,430,579	15,376,651	30,807,230
<b>Total Liabilities</b>	<b>23,856,919</b>	<b>18,176,965</b>	<b>42,033,884</b>
<b>Deferred Inflows of Resources</b>	<b>46,929</b>	<b>5,187</b>	<b>52,116</b>
<b>Net Position</b>			
Net investment in capital assets	12,220,024	22,144,590	34,364,614
Restricted:			
Nonexpendable permanent funds	54,145	-	54,145
Expendable permanent funds	125,930	-	125,930
Federal and State grants	357,504	-	357,504
Other purposes	880,868	-	880,868
Unrestricted	(10,751,199)	7,379,902	(3,371,297)
<b>Total Net Position</b>	<b>\$ 2,887,272</b>	<b>\$ 29,524,492</b>	<b>\$ 32,411,764</b>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 2,174,171	\$ 476,395	\$ 2,368	\$ 6,150	\$ (1,689,258)		\$ (1,689,258)
Public safety	6,002,431	1,130,642	152,897	10,000	(4,708,892)		(4,708,892)
Education	11,358,578	-	33,688	-	(11,324,890)		(11,324,890)
Public works	1,588,486	-	101,912	1,883,772	397,198		397,198
Health and human services	684,026	52,681	207,185	-	(424,160)		(424,160)
Culture and recreation	335,896	9,898	19,240	2,637,948	2,331,190		2,331,190
Community development	870,857	20,530	315,227	247,365	(287,735)		(287,735)
Interest expense	91,070	-	-	-	(91,070)		(91,070)
Total governmental activities	23,105,515	1,690,146	832,517	4,785,235	(15,797,617)		(15,797,617)
<b>Business-type activities:</b>							
Water	2,204,586	2,109,439	530,767	-		\$ 435,620	435,620
Sewer	2,083,868	1,997,875	-	169,492		83,499	83,499
Total business-type activities	4,288,454	4,107,314	530,767	169,492		519,119	519,119
Total Primary Government	\$ 27,393,969	\$ 5,797,460	\$ 1,363,284	\$ 4,954,727	(15,797,617)	519,119	(15,278,498)
<b>General Revenues:</b>							
Property taxes					17,608,559	-	17,608,559
Grants and contributions not restricted to specific programs					832,182	296,632	1,128,814
Motor vehicle and other excise					1,418,015	-	1,418,015
Penalties and interest on taxes					111,530	-	111,530
Unrestricted investment income					18,113	23,076	41,189
Total general revenues					19,988,399	319,708	20,308,107
Change in Net Position					4,190,782	838,827	5,029,609
<b>Net Position:</b>							
Beginning of year, as restated (see note IV)					(1,303,510)	28,685,665	27,382,155
End of year					\$ 2,887,272	\$ 29,524,492	\$ 32,411,764

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General Fund	Library Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 1,926,532	\$ 1,093,727	\$ 662,105	\$ 430,161	\$ 4,112,525
Receivables:					
Property taxes	1,799,851	-	-	-	1,799,851
Departmental and other	135,057	400,000	-	-	535,057
Intergovernmental	122,615	500,000	-	746,196	1,368,811
Other assets	-	-	5,217	-	5,217
<b>Total Assets</b>	<u>3,984,055</u>	<u>1,993,727</u>	<u>667,322</u>	<u>1,176,357</u>	<u>7,821,461</u>
<b>Deferred Outflows of Resources</b>	-	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u>3,984,055</u>	<u>1,993,727</u>	<u>667,322</u>	<u>1,176,357</u>	<u>7,821,461</u>
<b>Liabilities</b>					
Liabilities:					
Warrants and accounts payable	63,732	-	22,290	236,722	322,744
Accrued payroll	153,885	-	-	4,052	157,937
Retainage Payable	-	264,004	-	-	264,004
Bond anticipation notes	-	5,000,000	1,704,700	463,000	7,167,700
Other liabilities	13,405	-	-	-	13,405
<b>Total Liabilities</b>	<u>231,022</u>	<u>5,264,004</u>	<u>1,726,990</u>	<u>703,774</u>	<u>7,925,790</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	1,675,133	-	-	-	1,675,133
Unavailable revenue - excise taxes	135,056	-	-	-	135,056
Unavailable revenue - other	122,615	900,000	-	-	1,022,615
<b>Total Deferred Inflows of Resources</b>	<u>1,932,804</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>2,832,804</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	54,145	54,145
Restricted	-	-	15,000	1,349,302	1,364,302
Committed	161,506	-	-	-	161,506
Unassigned	1,658,723	(4,170,277)	(1,074,668)	(930,864)	(4,517,086)
<b>Total Fund Balances</b>	<u>1,820,229</u>	<u>(4,170,277)</u>	<u>(1,059,668)</u>	<u>472,583</u>	<u>(2,937,133)</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 3,984,055</u>	<u>\$ 1,993,727</u>	<u>\$ 667,322</u>	<u>\$ 1,176,357</u>	<u>\$ 7,821,461</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

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<b>Total Governmental Fund Balances</b>	<b>\$ (2,937,133)</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,969,659
Other long-term assets are not available to pay for current period expenditures and, therefore are reported as unavailable revenue in the funds.	2,832,804
Deferred outflows and (inflows) of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds: Net difference between projected and actual earnings on pension plan investments	(46,929)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the government funds: Bonds and notes payable Post-closing landfill monitoring costs Compensated absences Other postemployment benefits Net pension liability	(1,405,300) (264,500) (873,326) (2,214,747) <u>(11,173,256)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 2,887,272</u></u></b>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General Fund	Library Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 17,554,634	\$ -	\$ -	\$ -	\$ 17,554,634
Intergovernmental	1,066,000	771,237	6,150	3,319,481	5,162,868
Excise taxes	1,447,936	-	-	-	1,447,936
Licenses and permits	619,523	-	-	-	619,523
Departmental and other revenue	493,559	-	-	437,153	930,712
Penalties and interest on taxes	111,530	-	-	-	111,530
Fines and forfeitures	139,911	-	-	-	139,911
Investment income	5,302	12,413	-	398	18,113
Contributions and donations	-	201,400	10,000	198,718	410,118
<b>Total Revenues</b>	<u>21,438,395</u>	<u>985,050</u>	<u>16,150</u>	<u>3,955,750</u>	<u>26,395,345</u>
<b>Expenditures</b>					
Current:					
General government	1,555,457	-	257,018	85,805	1,898,280
Public safety	3,924,798	-	628,863	403,780	4,957,441
Education	11,355,228	-	67,900	-	11,423,128
Public works	1,217,985	-	-	1,865,380	3,083,365
Health and human services	480,125	-	-	90,409	570,534
Culture and recreation	214,005	5,158,196	-	848,002	6,220,203
Community development	-	-	-	825,324	825,324
Fringe and pension benefits	2,150,282	-	-	-	2,150,282
State and county tax assessments	127,484	-	-	-	127,484
Debt service:					
Principal	145,525	-	-	-	145,525
Interest	45,286	44,667	1,117	-	91,070
<b>Total Expenditures</b>	<u>21,216,175</u>	<u>5,202,863</u>	<u>954,898</u>	<u>4,118,700</u>	<u>31,492,636</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>222,220</u>	<u>(4,217,813)</u>	<u>(938,748)</u>	<u>(162,950)</u>	<u>(5,097,291)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	40,765	-	12,650	29,000	82,415
Transfers out	-	-	-	(82,415)	(82,415)
Issuance of long-term debt	-	400,000	48,949	-	448,949
<b>Total Other Financing Sources (Uses)</b>	<u>40,765</u>	<u>400,000</u>	<u>61,599</u>	<u>(53,415)</u>	<u>448,949</u>
<b>Net Change in Fund Balances</b>	262,985	(3,817,813)	(877,149)	(216,365)	(4,648,342)
Fund Balances - Beginning, as restated (see note IV)	1,557,244	(352,464)	(182,519)	688,948	1,711,209
Fund Balances - Ending	<u>\$ 1,820,229</u>	<u>\$ (4,170,277)</u>	<u>\$ (1,059,668)</u>	<u>\$ 472,583</u>	<u>\$ (2,937,133)</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

**JUNE 30, 2015**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (4,648,342)**

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. The net amounts are reflected here as reconciling items:

Capital outlays	\$ 8,947,851	
Depreciation expense	(364,537)	
Net effect of reporting capital assets		8,583,314

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Repayments of debt principal	145,525	
Proceeds from bank note transactions	(448,949)	
Payments of minimum capital lease principal obligations	28,326	
Net effect of reporting long-term debt		(275,098)

Revenues in the Statement of Activities that do not provide current financial are reported as unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue of various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.

900,952

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Post-closing landfill monitoring costs	20,000	
Other postemployment benefits	(411,235)	
Pension benefits	21,191	
Net effect of reporting long-term liabilities		(370,044)

**Change in Net Position of Governmental Activities** **\$ 4,190,782**

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,658,288	\$ 3,856,350	\$ 5,514,638
Receivables, net:			
User charges	355,567	661,063	1,016,630
Betterments	-	7,838	7,838
Intergovernmental	289,431	11,057	300,488
Total current assets	<u>2,303,286</u>	<u>4,536,308</u>	<u>6,839,594</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	3,040,399	3,040,399
Intergovernmental	-	36,014	36,014
Land	369,002	1,383,999	1,753,001
Construction in progress	1,064,167	348,991	1,413,158
Capital assets, net of depreciation	12,155,654	22,468,824	34,624,478
Total noncurrent assets	<u>13,588,823</u>	<u>27,278,227</u>	<u>40,867,050</u>
<b>Total Assets</b>	<u>15,892,109</u>	<u>31,814,535</u>	<u>47,706,644</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>			
Current liabilities:			
Warrants and accounts payable	56,219	44,803	101,022
Accrued interest	184,098	67,735	251,833
Other liabilities	-	2,344	2,344
Bond anticipation notes payable	1,500,000	-	1,500,000
Bonds and notes payable	505,059	423,700	928,759
Compensated absences	-	16,356	16,356
Total current liabilities	<u>2,245,376</u>	<u>554,938</u>	<u>2,800,314</u>
Noncurrent liabilities:			
Bonds and notes payable	10,375,691	3,619,100	13,994,791
Compensated absences	-	49,067	49,067
Other postemployment benefits	-	97,769	97,769
Net pension liability	225,785	1,009,239	1,235,024
Total noncurrent liabilities	<u>10,601,476</u>	<u>4,775,175</u>	<u>15,376,651</u>
<b>Total Liabilities</b>	<u>12,846,852</u>	<u>5,330,113</u>	<u>18,176,965</u>
<b>Deferred Inflows of Resources</b>	<u>948</u>	<u>4,239</u>	<u>5,187</u>
<b>Net Position</b>			
Net investment in capital assets	1,985,576	20,159,014	22,144,590
Unrestricted	1,058,733	6,321,169	7,379,902
<b>Total Net Position</b>	<u>\$ 3,044,309</u>	<u>\$ 26,480,183</u>	<u>\$ 29,524,492</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Operating Revenues</b>			
Charges for services	\$ 2,640,206	\$ 1,997,875	\$ 4,638,081
<b>Total Operating Revenues</b>	<u>2,640,206</u>	<u>1,997,875</u>	<u>4,638,081</u>
<b>Operating Expenses</b>			
Operating costs	1,355,610	1,083,372	2,438,982
Depreciation	409,795	835,605	1,245,400
<b>Total Operating Expenses</b>	<u>1,765,405</u>	<u>1,918,977</u>	<u>3,684,382</u>
<b>Operating Income (Loss)</b>	<u>874,801</u>	<u>78,898</u>	<u>953,699</u>
<b>Nonoperating Revenues (Expenses)</b>			
Intergovernmental	289,431	7,201	296,632
Interest income	9,742	13,334	23,076
Interest expense	(439,181)	(164,891)	(604,072)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(140,008)</u>	<u>(144,356)</u>	<u>(284,364)</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>734,793</u>	<u>(65,458)</u>	<u>669,335</u>
<b>Capital Contributions</b>			
Betterments	-	169,492	169,492
<b>Change in Net Position</b>	734,793	104,034	838,827
Total Net Position - Beginning, as restated (see note IV)	<u>2,309,516</u>	<u>26,376,149</u>	<u>28,685,665</u>
Total Net Position - Ending	<u>\$ 3,044,309</u>	<u>\$ 26,480,183</u>	<u>\$ 29,524,492</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 2,588,444	\$ 1,873,667	\$ 4,462,111
Payments to employees	-	(337,173)	(337,173)
Payments to vendors	(1,337,787)	(730,664)	(2,068,451)
Net Cash Provided by Operating Activities	1,250,657	805,830	2,056,487
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Issuances of Debt	1,500,000	-	1,500,000
Receipts from betterments	-	428,771	428,771
Government subsidy	-	18,126	18,126
Acquisition and construction of capital assets	(826,211)	(407,896)	(1,234,107)
Principal payments on bonds and notes	(1,287,971)	(552,400)	(1,840,371)
Interest expense	(443,130)	(169,474)	(612,604)
Net Cash Used for Capital and Related Financing Activities	(1,057,312)	(682,873)	(1,740,185)
<b>Cash Flows from Investing Activities:</b>			
Interest income	9,742	13,334	23,076
Net Cash Provided by Investing Activities	9,742	13,334	23,076
<b>Net Change in Cash and Cash Equivalents</b>	203,087	136,291	339,378
<b>Cash and Cash Equivalents:</b>			
Beginning of year	\$ 1,455,201	3,720,059	5,175,260
End of year	\$ 1,658,288	\$ 3,856,350	\$ 5,514,638
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</b>			
Operating income (loss)	\$ 874,801	\$ 78,898	\$ 953,699
Depreciation expense	409,795	835,605	1,245,400
Changes in assets, deferred outflows, and liabilities:			
Receivables	(51,762)	(124,208)	(175,970)
Deferred inflows of resources	(948)	(4,239)	(5,187)
Accounts payable and accrued expenses	18,771	19,774	38,545
Net Cash Provided by Operating Activities	\$ 1,250,657	\$ 805,830	\$ 2,056,487

The notes to the financial statements are an integral part of this statement.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2015**

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	Private Purpose Trust Funds	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 573,721	\$ 84,328
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<u>573,721</u>	<u>84,328</u>
<b>Liabilities</b>		
Planning and performance bonds	-	84,328
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<u>-</u>	<u>84,328</u>
<b>Net Position</b>		
Held in trust	573,721	-
	<u>                    </u>	<u>                    </u>
<b>Total Net Position</b>	<u><u>\$ 573,721</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2015**

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	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Investment income	\$ 2,946
Other income	<u>254,583</u>
<b>Total Additions</b>	<u>257,529</u>
 <b>Deductions</b>	
Public housing assistance	<u>157,981</u>
<b>Total Deductions</b>	<u>157,981</u>
<b>Change in Net Position</b>	99,548
Net Position - Beginning	<u>474,173</u>
Net Position - Ending	<u><u>\$ 573,721</u></u>

See accompanying notes to basic financial statements.

## TOWN OF SALISBURY, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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#### **I. Summary of Significant Accounting Policies**

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

##### **A. Reporting Entity**

The Town is located in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated in 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Triton Regional School District that provides educational services to three area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2015, the Town's share of the operating and debt service expenses was \$10,471,597. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 112 Elm Street, Byfield, MA 01922.

##### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 government funds and major individual enterprise funds are reported as separate

columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds if they exist are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

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

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Library Construction Fund – Accounts for all the activity associated with the renovation of the Town’s library.

Capital Projects Fund – used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

The *Nonmajor Governmental Funds* consist of other special revenue 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 the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Sewer Enterprise Fund – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity**

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and sewer user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectibles for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectibles comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	40 years
Machinery and equipment	5-7 years
Vehicles	5-10 years
Infrastructure	25-50 years

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is retained by the respective funds.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – 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, *deferred outflows of resources*, 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 then.

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, *deferred inflows of resources*, 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 two types of items which qualify for reporting in this category:

- 1) Arising only under a modified accrual basis of accounting, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 2) The Town has one item that is reported on the government-wide statement of net position which relate to inflows from changes in the net pension liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

*Nonexpendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Expendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Federal and State grants* represent position that have restrictions placed on them from federal and state granting agencies.

*Other purposes* represent assets that are restricted by donors and state laws for specific governmental programs and uses.

*Fund Equity* – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

*Non-spendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* represents amounts that can only be used for specific purposes pursuant to formal action of the Town Meeting through Town Meeting Votes, which represent the most binding constraint that give rise to committed fund balance. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by ordinance authorized the Finance Director to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a *negative* unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

*Stabilization Funds* – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$456,013 at June 30, 2015 and is reported as unassigned fund balance in the General Fund.

*Encumbrances* - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Finance Director as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$161,506 of encumbrances from Town Meeting votes in the general fund as committed. There are no encumbrances reported in the other funds.

The following represent the categorizations of fund balance:

	General	Library Construction Fund	Capital Project Funds	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 54,145	\$ 54,145
Committed:					
General government	110,606	-	-	-	110,606
Public safety	16,400	-	-	-	16,400
Public works	34,500	-	-	-	34,500
Restricted:					
General government	-	-	-	233,133	233,133
Public safety	-	-	-	306,708	306,708
Public works	-	-	15,000	418,865	433,865
Health and human services	-	-	-	66,691	66,691
Culture and recreation	-	-	-	66,853	66,853
Community preservation	-	-	-	257,052	257,052
Unassigned	1,658,723	(4,170,277)	(1,074,668)	(930,864)	(4,517,086)
<b>Totals</b>	<b>\$ 1,820,229</b>	<b>\$ (4,170,277)</b>	<b>\$ (1,059,668)</b>	<b>\$ 472,583</b>	<b>\$ (2,937,133)</b>

**E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice removal costs and veterans' services. These over expenditures will be funded through available funds during fiscal year 2016.

The Town incurred deficits in certain of its grant funds, Capital Project Major Fund and the Library Construction Major Fund in the aggregate amount of \$6,175,809. These deficits will be funded through future long-term borrowings and grant reimbursements.

#### **F. Use of Estimates**

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.

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

*Custodial Credit Risk: Deposits* - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$10,285,212 and the bank balance was \$12,429,761. Of the Town's bank balance, \$10,052,803 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Interest Rate Risk* – The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

*Concentration of Credit Risk* – The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town did not maintain balances in any single investment that would represent more than 5% of the Town's total investments.

*Credit Risk* – The Town has not adopted a formal policy related to credit risk. During the fiscal year, the Town limited its investments to money market accounts and bank deposits.

### **B. Receivables**

*MCWT Loan Subsidies* – The Town has entered into numerous loan agreements with the Massachusetts Clean Water Trust (MCWT). It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$169,686 and interest in the amount of \$60,158 until the maturity of these agreements. GAAP requires the recognition of gross debt

relative to these agreements; therefore, the principal amounts of \$122,615 and \$47,071 are reported within the General Fund and Sewer Enterprise Funds, respectively.

Receivables as of year-end for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 461,629	\$ (191,433)	\$ 270,196
Tax deferrals	65,638	-	65,638
Tax liens	738,250	-	738,250
Tax foreclosures	725,767	-	725,767
Excise taxes	325,146	(190,089)	135,057
Debt subsidy	400,000	-	400,000
Intergovernmental	1,368,811	-	1,368,811
Total	<u>\$ 4,085,241</u>	<u>\$ (381,522)</u>	<u>\$ 3,703,719</u>

Receivables as of year-end for Town's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Sewer user fees	\$ 657,447	\$ -	\$ 657,447
Sewer liens	3,616	-	3,616
Sewer betterments - apportioned	7,838	-	7,838
Sewer betterments - unapportioned	3,040,399	-	3,040,399
Water user fees	352,740	-	352,740
Water liens	2,827	-	2,827
Intergovernmental	336,502	-	336,502
Total	<u>\$ 4,401,369</u>	<u>\$ -</u>	<u>\$ 4,401,369</u>

Unapportioned sewer betterments are amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Library Construction Fund	Total
Receivable type:			
Real estate and personal property taxes	\$ 146,077	\$ -	\$ 146,077
Tax deferrals	65,038	-	65,038
Tax liens	738,250	-	738,250
Tax foreclosures	725,767	-	725,767
Excise taxes	135,057	-	135,057
Debt subsidy	-	400,000	400,000
Intergovernmental	122,615	500,000	622,615
Total	<u>\$ 1,932,804</u>	<u>\$ 900,000</u>	<u>\$ 2,832,804</u>

## C. Capital Assets

Capital asset activity of the Town for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 2,818,550	\$ -	\$ -	\$ 2,818,550
Construction in process	2,348,768	8,255,947	(1,021,995)	9,582,720
Total capital assets not being depreciated	5,167,318	8,255,947	(1,021,995)	12,401,270
Capital assets being depreciated:				
Buildings and improvements	2,910,957	11,774	-	2,922,731
Infrastructure	7,716,266	1,551,694	-	9,267,960
Machinery and equipment	1,413,462	79,104	-	1,492,566
Vehicles	2,368,814	71,327	-	2,440,141
Total capital assets being depreciated	14,409,499	1,713,899	-	16,123,398
Less accumulated depreciation for:				
Buildings and improvements	(1,646,240)	(52,063)	-	(1,698,303)
Infrastructure	(4,482,472)	(132,994)	-	(4,615,466)
Machinery and equipment	(999,512)	(93,637)	-	(1,093,149)
Vehicles	(2,062,248)	(85,843)	-	(2,148,091)
Total accumulated depreciation	(9,190,472)	(364,537)	-	(9,555,009)
Total capital assets being depreciated, net	5,219,027	1,349,362	-	6,568,389
Governmental activities capital assets, net	\$ 10,386,345	\$ 9,605,309	\$ (1,021,995)	\$ 18,969,659
<i><u>Business Activities - All:</u></i>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Construction in process	455,833	957,325	-	1,413,158
Total capital assets not being depreciated	2,208,834	957,325	-	3,166,159
Capital assets being depreciated:				
Buildings and improvements	19,050	20,050	-	39,100
Infrastructure	56,450,965	141,374	-	56,592,339
Machinery and equipment	917,064	47,968	-	965,032
Vehicles	174,692	67,390	-	242,082
Total capital assets being depreciated	57,561,771	276,782	-	57,838,553
Less accumulated depreciation for:				
Buildings and improvements	(888)	(1,013)	-	(1,901)
Infrastructure	(21,410,534)	(1,189,982)	-	(22,600,516)
Machinery and equipment	(382,560)	(47,667)	-	(430,227)
Vehicles	(174,692)	(6,739)	-	(181,431)
Total accumulated depreciation	(21,968,674)	(1,245,401)	-	(23,214,075)
Total capital assets being depreciated, net	35,593,097	(968,619)	-	34,624,478
Business activities capital assets, net	\$ 37,801,931	\$ (11,294)	\$ -	\$ 37,790,637

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-type Activities: Water</i></u>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Construction in process	418,735	645,432	-	1,064,167
Total capital assets not being depreciated	<u>787,737</u>	<u>645,432</u>	<u>-</u>	<u>1,433,169</u>
Capital assets being depreciated:				
Infrastructure	15,985,028	132,811	-	16,117,839
Machinery and equipment	565,780	47,968	-	613,748
Total capital assets being depreciated	<u>16,550,808</u>	<u>180,779</u>	<u>-</u>	<u>16,731,587</u>
Less accumulated depreciation for:				
Infrastructure	(3,850,895)	(379,724)	-	(4,230,619)
Machinery and equipment	(315,243)	(30,071)	-	(345,314)
Total accumulated depreciation	<u>(4,166,138)</u>	<u>(409,795)</u>	<u>-</u>	<u>(4,575,933)</u>
Total Water capital assets being depreciated, net	<u>12,384,670</u>	<u>(229,016)</u>	<u>-</u>	<u>12,155,654</u>

<u><i>Business-type Activities: Sewer</i></u>				
Capital assets being depreciated:				
Land	1,383,999	-	-	1,383,999
Construction in process	37,098	311,893	-	348,991
Total capital assets not being depreciated	<u>1,421,097</u>	<u>311,893</u>	<u>-</u>	<u>1,732,990</u>
Capital assets being depreciated:				
Buildings	19,050	20,050	-	39,100
Infrastructure	40,465,937	8,563	-	40,474,500
Machinery and equipment	351,284	-	-	351,284
Vehicles	174,692	67,390	-	242,082
Total capital assets being depreciated	<u>41,010,963</u>	<u>96,003</u>	<u>-</u>	<u>41,106,966</u>
Less accumulated depreciation for:				
Buildings	(888)	(1,013)	-	(1,901)
Infrastructure	(17,559,639)	(810,258)	-	(18,369,897)
Machinery and equipment	(67,317)	(17,596)	-	(84,913)
Vehicles	(174,692)	(6,739)	-	(181,431)
Total accumulated depreciation	<u>(17,802,536)</u>	<u>(835,606)</u>	<u>-</u>	<u>(18,638,142)</u>
Total Sewer capital assets being depreciated, net	<u>23,208,427</u>	<u>(739,603)</u>	<u>-</u>	<u>22,468,824</u>
Total Business-type activities - capital assets, net	<u>\$ 37,801,931</u>	<u>\$ (11,294)</u>	<u>\$ -</u>	<u>\$ 37,790,637</u>

Depreciation expense was charged to functions/programs as follows:

*Governmental Activities:*

General government	\$ 31,040
Public safety	126,075
Public works	169,144
Culture and recreation	38,278
Total Governmental Activities	<u>\$ 364,537</u>

*Business-Type Activities:*

Water	\$ 409,795
Sewer	835,606
Total Business-Type Activities	<u>\$ 1,245,401</u>

**D. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2015, are summarized as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	
Nonmajor Governmental Funds	\$ 40,765	\$ 12,650	\$ 29,000	\$ 82,415 (1)
Total	<u>\$ 40,765</u>	<u>\$ 12,650</u>	<u>\$ 29,000</u>	<u>\$ 82,415</u>

(1) Transfers to general fund to supplement operating budgets; transfer to capital projects fund to supplement waterways capital project; and transfer between nonmajor funds to supplement waterways and harbor commission.

**E. Temporary Debt**

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively.

Temporary notes outstanding at June 30, 2015, are payable as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
BAN	1.25%	03/24/16	\$ -	\$ 5,654,700	\$ -	\$ 5,654,700
BAN	1.10%	03/24/16	-	1,050,000	-	1,050,000
BAN	0.60%	03/24/16	-	463,000	-	463,000
BAN	0.80%	matured	47,000	-	(47,000)	-
BAN	1.00%	matured	6,100,000	-	(6,100,000)	-
GAN	0.50%	matured	821,714	-	(821,714)	-
Total Governmental Notes			<u>6,968,714</u>	<u>7,167,700</u>	<u>(6,968,714)</u>	<u>7,167,700</u>
BAN	1.25%	03/24/16	-	1,500,000	-	1,500,000
BAN	0.80%	matured	800,000	-	(800,000)	-
Total Business-Type Notes - Water			<u>800,000</u>	<u>1,500,000</u>	<u>(800,000)</u>	<u>1,500,000</u>
Total Notes Payable			<u>\$ 7,768,714</u>	<u>\$ 8,667,700</u>	<u>\$ (7,768,714)</u>	<u>\$ 8,667,700</u>

Temporary notes outstanding at year end were issued for library construction (\$5,000,000), energy audits (\$1,050,000), police station (\$631,200), parks (\$463,000), harbormaster boat (\$23,500) and well improvements (\$1,500,000).

**F. Long-Term Obligations**

Bond and Note Indebtedness – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

Capital Leases – The Town has entered into long-term leases for the purchase of police vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. All such leases have been fully paid at June 30, 2015.

Assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Police Chevy Tahoe	\$ 33,416
Police Cruisers (2)	51,665
Less: accumulated depreciation	(54,698)
Total	<u>\$ 30,383</u>

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2015 debt assessment to the Town is approximated below:

<u>Related Entity (unaudited)</u>	<u>Principal Amount</u>	<u>Percent</u>	<u>Assessment Amount (debt portion)</u>
Triton Regional School District	\$ 11,695,000	35.80%	\$ 754,811

The following reflects the activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<b>Governmental Activities:</b>					
Bond and note indebtedness	\$ 1,101,876	\$ 448,949	\$ (145,525)	\$ 1,405,300	\$ 262,218
Capital lease obligations	28,326	-	(28,326)	-	-
Post-closure landfill monitoring	284,500	-	(20,000)	264,500	20,000
Compensated absences	873,326	-	-	873,326	218,332
Other postemployment benefits	1,803,512	628,174	(216,939)	2,214,747	-
Net pension liability	* 11,241,377	838,171	(906,292)	11,173,256	-
Total Governmental Activities	\$ 15,332,917	\$ 1,915,294	\$ (1,317,082)	\$ 15,931,129	\$ 500,550
<b>Business-type Activities: Water</b>					
Bond and note indebtedness	\$ 11,368,721	\$ -	\$ (487,971)	\$ 10,880,750	\$ 505,059
Net pension liability	* 227,161	16,938	(18,314)	225,785	-
Total Business-type Activities: Water and Sewer	11,368,721	16,938	(506,285)	11,106,535	505,059
<b>Business-type Activities: Sewer</b>					
Bond and note indebtedness	4,595,200	-	(552,400)	4,042,800	423,700
Compensated absences	65,423	-	-	65,423	16,356
Other postemployment benefits	83,603	21,639	(7,473)	97,769	-
Net pension liability	* 1,015,392	75,709	(81,862)	1,009,239	-
Total Business-type Activities: Sewer	5,759,618	97,348	(641,735)	5,215,231	440,056
Total Business-type Activities: All	\$ 17,128,339	\$ 114,286	\$ (1,148,020)	\$ 16,321,766	\$ 945,115

\* Restated due to GASB 68 implementation (See Note III, Subsection F)

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the respective business-type funds.

The following is a summary of outstanding long-term debt obligations for the year ended:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<b><u>Governmental Activities:</u></b>						
General Obligation Bonds	2027	3.0 - 4.0%	\$ 520,000	\$ -	\$ (40,000)	\$ 480,000
MCWT Note	2019	Varies	501,997	-	(79,483)	422,514
Promissory Notes	2018	Varies	79,879	448,949	(26,042)	502,786
Total Governmental Bond and Note Indebtedness			1,101,876	448,949	(145,525)	1,405,300
<b><u>Business-type Activities - Water</u></b>						
General Obligation Refunding E	2030	3.5 - 5.0%	9,290,000	-	(385,000)	8,905,000
MCWT Note	2030	2.0%	1,971,960	-	(98,373)	1,873,587
MCWT Note	2033	2.0%	106,761	-	(4,598)	102,163
Total Water Bond and Note Indebtedness			11,368,721	-	(487,971)	10,880,750
<b><u>Business-type Activities - Sewer</u></b>						
General Obligation Bond	2031	3.0 - 4.0%	3,340,000	-	(200,000)	3,140,000
General Obligation Refunding E	2019	3.5 - 4.0%	1,030,000	-	(310,000)	720,000
MCWT Note	2018	Varies	225,200	-	(42,400)	182,800
Total Sewer Bond and Note Indebtedness			4,595,200	-	(552,400)	4,042,800
Total Business-type Bond and Note Indebtedness			15,963,921	-	(1,040,371)	14,923,550
Total Long-Term Bond and Note Indebtedness - All			\$ 17,065,797	\$ 448,949	\$ (1,185,896)	\$ 16,328,850

Payments on general long-term debt obligations due in future years consist of the following:

<i>Governmental Activities - Total Bond and Note Indebtedness</i>							
Year Ending	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
June 30							
2016	262,218	(23,247)	238,971	39,421	(14,732)	24,689	263,660
2017	267,107	(23,460)	243,647	33,174	(12,421)	20,753	264,400
2018	240,277	(24,229)	216,048	26,101	(9,482)	16,619	232,667
2019	227,849	(25,364)	202,485	20,146	(6,546)	13,600	216,085
2020	127,849	(26,315)	101,534	14,416	(2,416)	12,000	113,534
2021-2025	200,000	-	200,000	36,000	-	36,000	236,000
2026-2030	80,000	-	80,000	3,200	-	3,200	83,200
Total	\$ 1,405,300	\$ (122,615)	\$ 1,282,685	\$ 172,458	\$ (45,597)	\$ 126,861	\$ 1,409,546

<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
June 30							
2016	505,059	-	505,059	419,005	-	419,005	924,064
2017	522,189	-	522,189	400,582	-	400,582	922,771
2018	534,361	-	534,361	381,618	-	381,618	915,979
2019	556,578	-	556,578	362,011	-	362,011	918,589
2020	583,840	-	583,840	341,455	-	341,455	925,295
2021-2025	3,289,765	-	3,289,765	1,304,340	-	1,304,340	4,594,105
2026-2030	3,983,597	-	3,983,597	573,091	-	573,091	4,556,688
2031-2035	905,361	-	905,361	18,095	-	18,095	923,456
Total	\$ 10,880,750	\$ -	\$ 10,880,750	\$ 3,800,197	\$ -	\$ 3,800,197	\$ 14,680,947

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
June 30							
2016	423,700	(11,057)	412,643	151,403	(6,051)	145,352	557,995
2017	385,000	(11,298)	373,702	136,893	(4,877)	132,016	505,718
2018	386,400	(12,320)	374,080	121,240	(2,440)	118,800	492,880
2019	382,700	(12,396)	370,304	106,493	(1,193)	105,300	475,604
2020	325,000	-	325,000	92,100	-	92,100	417,100
2021-2025	995,000	-	995,000	328,100	-	328,100	1,323,100
2026-2030	955,000	-	955,000	133,100	-	133,100	1,088,100
2031-2035	190,000	-	190,000	3,800	-	3,800	193,800
Total	\$ 4,042,800	\$ (47,071)	\$ 3,995,729	\$ 1,073,129	\$ (14,561)	\$ 1,058,568	\$ 5,054,297

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
June 30							
2016	928,759	(11,057)	917,702	570,408	(6,051)	564,357	1,482,059
2017	907,189	(11,298)	895,891	537,475	(4,877)	532,598	1,428,489
2018	920,761	(12,320)	908,441	502,858	(2,440)	500,418	1,408,859
2019	939,278	(12,396)	926,882	468,504	(1,193)	467,311	1,394,193
2020	908,840	-	908,840	433,555	-	433,555	1,342,395
2021-2025	4,284,765	-	4,284,765	1,632,440	-	1,632,440	5,917,205
2026-2030	4,938,597	-	4,938,597	706,191	-	706,191	5,644,788
2031-2035	1,095,361	-	1,095,361	21,895	-	21,895	1,117,256
Total	\$ 14,923,550	\$ (47,071)	\$ 14,876,479	\$ 4,873,326	\$ (14,561)	\$ 4,858,765	\$ 19,735,244

*MCWT Loan Subsidies* – As previously noted in Note I. B., the Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on an annual basis for principal in the amount of \$169,686 until maturity. For the year ended June 30, 2015, total principal subsidies received were \$33,977.

Authorized and Unissued Debt – At June 30, 2015, the Town had authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Town Creek Culvert	\$ 378,286
Park Reimbursable Grant	400,000
Energy Conservation	158,585
Library Construction	<u>1,500,000</u>
Total authorized and unissued	<u>\$ 2,436,871</u>

### **III. Other Information**

#### **A. Retirement System**

Plan Description – The Town contributes to the Essex Regional Retirement System (ERRS), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and is administered by the Essex Regional Retirement Board (ERRB). Standalone audited financial statements for the year ended December 31, 2014 were issued and may be obtained by writing to the Essex Regional Retirement System, 401 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the Retirement System as of December 31, 2014, was as follows:

Retirees and beneficiaries currently receiving benefits	1,729
Active plan members	2,677
Inactive plan members	<u>1,110</u>
Total	<u>5,516</u>

Benefit Terms – The Retirement 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 state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

Contributions Requirements – The Town has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,006,468 to the Retirement System in fiscal year 2015, and the actuarially-determined contribution requirement for the fiscal year was \$1,006,468. The Town's contributions as a percentage of covered payroll was approximately 22.0% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the Town reported a liability of \$12,408,280 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 3.657% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Pension Expense – The Town recognized \$982,934 in pension expense in the statement of activities in fiscal year 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ —	\$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	—	52,116
Changes in proportion and differences between Town contributions and proportionate share of contributions	—	—
Town contributions subsequent to the measurement date	<u>—</u>	<u>—</u>
Total	<u>\$ —</u>	<u>\$ 52,116</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

Year ended June 30,	
2016	\$ 13,029
2017	13,029
2018	13,029
2019	13,029

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry age normal cost method
Amortization method:	Closed – approximate level percent of payroll
Remaining amortization period:	20 years for the fresh start base
Asset valuation method:	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Investment rate of return:	8.0% per year
Projected salary increases:	Select and Ultimate. 7.5% year one, 6.5% year two, 6.0% year three, 5.5% year four, 5.0% year five, 3.75 ultimate rate.
Cost of living adjustments:	3% of the first \$13,000 of a member’s retirement allowance is assumed to be granted every year.
Mortality rates:	Pre-retirement: the RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.
Disabled life mortality:	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time

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 real rates of return (expected returns, net of pension plan investment expense and inflation) 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, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Core bonds	13.0%	0.97%
Value-added bonds	10.0%	3.80%
Large cap equities	14.5%	4.61%
Mid/small cap equities	3.5%	4.85%
International equities	16.0%	5.10%
Emerging market equities	6.0%	6.31%
Private equity	10.0%	6.55%
Real estate	10.0%	3.40%
Hedge funds	9.0%	3.64%
Cash/portfolio completion	4.0%	0.00%
Timber/natural resources	4.0%	3.64%

Discount Rate – The discount rate used to measure the total pension was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System’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 Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8.00% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
Town’s proportionate share of the net pension liability	\$15,310,369	\$12,408,280	\$ 10,072,231

**B. Risk Financing**

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 years.

**C. Other Postemployment Benefits (OPEB)**

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants in the Plan consists of 72 active employees and 50 retired employees for a total of 122.

*Funding Policy* - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. Retirees also contribute 50% towards life insurance premiums; \$5,000 face value. The Town pays the remainder. 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 is calculated based on the annual required contribution "ARC" of the employer, an actuarially determined amount that is calculated in accordance with 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 liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contribution (ARC)	\$ 637,232
Interest on net OPEB obligation	75,485
Adjustment to ARC	<u>62,904</u>
Annual OPEB cost	649,813
Contributions made	<u>(224,412)</u>
Increase in net OPEB obligation	425,401
Net OPEB obligation at beginning of year	<u>1,887,115</u>
Net OPEB obligation at end of year	<u><u>\$ 2,312,516</u></u>

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, 2013	\$ 570,029	23.5%	\$1,529,772
June 30, 2014	\$ 617,903	42.2%	\$1,887,115
June 30, 2015	\$ 649,813	* 34.5%	\$2,312,516

\* The AOPEBC at June 30, 2015 was charged to the following functional programs in the Statement of Activities as follows: General Government \$108,989; Public Safety \$62,884, Public Works \$415,017, Health and Human Services \$14,628, Culture and Recreation \$15,394; Community Development \$11,262; and Sewer \$21,639.

*Funding Status and Funding Progress* – The funded status of the Plan at June 30, 2014 for the most recent actuarial valuation performed as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 8,942,563
Actuarial value of plan assets	<u>61,316</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,881,247</u>
Funded ratio (actuarial value of plan assets/AAL)	0.7%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 3,633,465
UAAL as a percentage of covered payroll	244.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

*Methods and Assumptions* – projections of benefits for financial reporting purposes are based on the substantive Plan 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 the 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 valuation are as follows:

Valuation date	June 30, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay
Remaining amortization period	30 years as of June 30, 2014
Interest discount rate	4% per year, net of investment expenses
Healthcare/Medical cost trend rate	7.5% grading down to 4.5% in year 2019 and thereafter

#### **D. Commitments and Contingencies**

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2015, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2015. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

## **E. Landfill Closure and Post-Closure Care Costs**

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$264,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

## **F. Implementation of New GASB Pronouncements**

### *Current Year Implementation*

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impact the financial reports of the pension systems that communities participate in and not the financial statements of the communities themselves. In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of GASB 69 became effective for the Town in fiscal 2015 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2015 and did not have a material effect on its financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements.

#### Future Year Implementation

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

#### **IV. Prior Period Restatement**

A prior period adjustment was made to decrease the Town’s beginning net position to reflect the net pension liability with the implementation of GASB 68. The Town also reclassified the beginning fund balances of several capital project funds from the nonmajor governmental funds to the Capital Projects major fund.

A summary of the restatements is as follows:

	Governmental Activities	Business-type Activities	Water Enterprise	Sewer Enterprise
Prior year as presented	\$ 9,937,867	\$ 29,928,218	\$ 2,536,677	\$ 27,391,541
Net pension liability	(11,241,377)	(1,242,553)	(227,161)	(1,015,392)
As Restated	<u>\$ (1,303,510)</u>	<u>\$ 28,685,665</u>	<u>\$ 2,309,516</u>	<u>\$ 26,376,149</u>

  

	Capital Projects	Nonmajor Governmental Funds
Prior year as presented	\$ -	\$ 506,429
Reclassify capital projects	(182,519)	182,519
As Restated	<u>\$ (182,519)</u>	<u>\$ 688,948</u>

**TOWN OF SALISBURY, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2015**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Town's proportion of the net pension liability (asset)	3.657%
Town's proportionate share of the net pension liability (asset)	\$ 12,408
Town's covered-employee payroll	\$ 4,576
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	271.2%
Plan fiduciary net position as a percentage of the total pension liability	52.27%

**SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN**  
*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Actuarially determined contribution	\$ 1,006
Contributions in relation to the actuarially determined contribution	<u>1,006</u>
Contribution deficiency (excess)	<u>\$ -</u>
Town's covered-employee payroll	\$ 4,576
Contributions as a percentage of covered-employee payroll	22.0%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**TOWN OF SALISBURY MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB  
YEAR ENDED JUNE 30, 2015**

**SCHEDULE OF FUNDING PROGRESS**

**Other Postemployment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2014	\$ 61,316	\$ 8,942,563	\$ 8,881,247	0.7%	\$ 3,633,465	244.4%
6/30/2012	\$ -	\$ 6,989,364	\$ 6,989,364	0.0%	\$ 3,628,492	192.6%
6/30/2009	\$ -	\$ 6,958,284	\$ 6,958,284	0.0%	\$ 3,700,000	188.1%

**SCHEDULE OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2015	\$ 649,813	\$ 224,412	34.5%
2014	\$ 617,903	\$ 260,561	42.2%
2013	\$ 570,029	\$ 134,066	23.5%
2012	\$ 538,139	\$ 131,148	24.4%
2011	\$ 472,158	\$ 240,223	50.9%
2010	\$ 453,717	\$ 224,544	49.5%

See accompanying independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
<b>Revenues:</b>						
Property Taxes	\$ 17,200,631	\$ 17,200,631	\$ 17,429,916	\$ -	\$ 17,429,916	\$ 229,285
Intergovernmental	1,108,146	1,108,146	1,066,000	-	1,066,000	(42,146)
Motor Vehicle and Other Excise	1,173,000	1,173,000	1,447,936	-	1,447,936	274,936
Departmental and Other Revenue	540,306	540,306	431,613	-	431,613	(108,693)
Licenses and Permits	425,000	425,000	619,523	-	619,523	194,523
Penalties and Interest	96,000	96,000	111,530	-	111,530	15,530
Fines and Forfeitures	100,000	100,000	139,911	-	139,911	39,911
Investment Income	2,000	2,000	3,185	-	3,185	1,185
Total Revenues	<u>20,645,083</u>	<u>20,645,083</u>	<u>21,249,614</u>	<u>-</u>	<u>21,249,614</u>	<u>604,531</u>
<b>Expenditures:</b>						
General government	1,645,048	1,750,622	1,656,107	71,606	1,727,713	22,909
Public safety	3,952,176	3,990,726	3,924,798	16,400	3,941,198	49,528
Education	11,318,133	11,355,228	11,355,228	-	11,355,228	-
Public works	1,111,266	1,186,877	1,369,213	73,500	1,442,713	(255,836)
Health and human services	423,117	428,527	480,125	-	480,125	(51,598)
Culture and recreation	219,894	219,894	214,005	-	214,005	5,889
Fringe and pension benefits	2,189,468	2,357,513	2,350,901	-	2,350,901	6,612
State and county tax assessments	127,484	127,484	127,484	-	127,484	-
Debt service	192,119	192,119	190,811	-	190,811	1,308
Total Expenditures	<u>21,178,705</u>	<u>21,608,990</u>	<u>21,668,672</u>	<u>\$ 161,506</u>	<u>21,830,178</u>	<u>(221,188)</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	481,762	493,262	493,262	-	493,262	-
Transfers out	-	(50,000)	(50,000)	-	(50,000)	-
Total Other Financing Sources (Uses)	<u>481,762</u>	<u>443,262</u>	<u>443,262</u>	<u>-</u>	<u>443,262</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(51,860)</u>	<u>(520,645)</u>	<u>\$ 24,204</u>	<u>-</u>	<u>\$ (137,302)</u>	<u>\$ 383,343</u>
<b>Other Budgetary Items:</b>						
Prior year encumbrances	153,112	153,112				
Prior year appropriation deficit	(93,833)	(93,833)				
Overlay deficit raised on tax recap	(3,154)	(3,154)				
Free cash transfers	25,000	493,785				
Other budgetary items	(4,265)	(4,265)				
Total Other Budgetary Items	<u>76,860</u>	<u>545,645</u>				
<b>Net Budget</b>	<u>\$ 25,000</u>	<u>\$ 25,000</u>				

See accompanying independent auditors' report.  
 See notes to the required supplementary information of this schedule.

**TOWN OF SALISBURY, MASSACHUSETTS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015**

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**I. Budgetary Basis of Accounting**

*Budgetary Information* – An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town’s annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2015, Town Meeting approved \$430,000 in supplemental budgetary changes which were funded from free cash.

The Finance Director has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

*Budgetary-to-GAAP Reconciliation* – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2015 is as follows:

	<u>Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenue on a budgetary basis			\$ 21,249,614
Interest earned by stabilization funds	\$ -	\$ 2,117	2,117
Short-term debt premium surplus	-	61,946	61,946
Sixty days property tax receipts	124,718	-	124,718
Revenue on a GAAP basis	<u>\$ 124,718</u>	<u>\$ 64,063</u>	<u>\$ 21,438,395</u>
Expenditures on a budgetary basis			\$ 21,668,672
Indirect cost allocations	\$ -	\$ (452,497)	(452,497)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (452,497)</u>	<u>\$ 21,216,175</u>
Transfers on a budgetary basis (net)			\$ 493,262
Indirect cost allocations	\$ -	\$ (452,497)	(452,497)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (452,497)</u>	<u>\$ 40,765</u>

*Appropriation Deficits* – During the fiscal year ended, expenditures exceeded appropriations in the General Fund for veterans’ benefits and the cost of snow and ice removal. These over expenditures will be funded through available funds during fiscal year 2016.