

TOWN OF SALISBURY, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2014

OWN 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, 2014, 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, 2014 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 funding and contribution progress for pension benefits and 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, 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 10, 2014

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, 2014.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$39.9 million (*total net position*). Of this amount, approximately \$8.3 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by over \$1.5 million or approximately 4.0% year to year. The governmental activities increased net position by about \$1.5 million (or 17.8% greater than the prior year net position), while the business-type activities was flat with the prior year.
- The Town's Unassigned Fund Balance reported in the General Fund was over \$1.4 million (6.9% of General Fund expenditures); and the total fund balance in the General Fund was nearly \$1.6 million (7.6% of General Fund expenditures). Within the Nonmajor Funds which reported total fund balances of over \$0.5 million, the Town had restricted fund balances that exceeded \$1.2 million and total unassigned deficits of nearly \$0.8 million. In addition, a small portion of the Nonmajor Funds represented amounts that are nonspendable as corpus of endowment of about \$50 thousand. The Town also presented a major fund for library construction that had an unassigned deficit of nearly \$0.4 million, due to construction funded from short-term borrowings.
- The Town's total long-term debt decreased by nearly \$1.1 million during the fiscal year as a result of anticipated scheduled pay downs of principal over \$1.14 million exceeding new issuances of \$80,000.

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 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.

Government-wide Financial Analysis

The condensed statement of net position is as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 11,786,731 | \$ 4,921,435 | \$ 9,381,432 | \$ 9,974,416 | \$ 21,168,163 | \$ 14,895,851 |
| Capital assets, net | 10,386,345 | 7,759,394 | 37,801,930 | 38,209,590 | 48,188,275 | 45,968,984 |
| Total assets | <u>22,173,076</u> | <u>12,680,829</u> | <u>47,183,362</u> | <u>48,184,006</u> | <u>69,356,438</u> | <u>60,864,835</u> |
| <u>Liabilities</u> | | | | | | |
| Long-term liabilities | 3,679,357 | 3,429,110 | 15,056,220 | 16,084,261 | 18,735,577 | 19,513,371 |
| Other liabilities | 8,555,852 | 815,448 | 2,198,924 | 2,208,800 | 10,754,776 | 3,024,248 |
| Total liabilities | <u>12,235,209</u> | <u>4,244,558</u> | <u>17,255,144</u> | <u>18,293,061</u> | <u>29,490,353</u> | <u>22,537,619</u> |
| <u>Net Position</u> | | | | | | |
| Invested in capital assets | 9,256,143 | 6,754,878 | 21,038,009 | 24,225,990 | 30,294,152 | 30,980,868 |
| Restricted | 1,264,709 | 1,081,566 | - | - | 1,264,709 | 1,081,566 |
| Unrestricted | (582,985) | 599,827 | 8,890,209 | 5,664,955 | 8,307,224 | 6,264,782 |
| Total Net Position | <u>\$ 9,937,867</u> | <u>\$ 8,436,271</u> | <u>\$ 29,928,218</u> | <u>\$ 29,890,945</u> | <u>\$ 39,866,085</u> | <u>\$ 38,327,216</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$39.9 million (*total net position*). This reflects an increase from the preceding year by over \$1.5 million and was made up of mostly increases in governmental activities due to favorable revenue and expense results when compared budget.

Business-type activities were flat as operating results were consistent with expectations.

By far the largest portion (approximately 30.2 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 1.3 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, (approximately 8.3 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-------------------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| <u>Revenues</u> | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,878,967 | \$ 1,440,211 | \$ 3,845,308 | \$ 3,676,165 | \$ 5,724,275 | \$ 5,116,376 |
| Operating grants and contributions | 851,593 | 1,566,470 | 2,856 | 19,886 | 854,449 | 1,586,356 |
| Capital grants and contributions | 2,248,041 | 311,517 | - | 199,507 | 2,248,041 | 511,024 |
| General revenues: | | | | | | |
| Property taxes | 16,571,696 | 16,254,951 | - | - | 16,571,696 | 16,254,951 |
| Intergovernmental | 771,441 | 677,524 | 7,499 | - | 778,940 | 677,524 |
| Other | 1,193,016 | 1,117,750 | 139,696 | 13,695 | 1,332,712 | 1,131,445 |
| Total Revenues | 23,514,754 | 21,368,423 | 3,995,359 | 3,909,253 | 27,510,113 | 25,277,676 |
| <u>Expenses</u> | | | | | | |
| General government | 2,179,745 | 2,136,659 | - | - | 2,179,745 | 2,136,659 |
| Public safety | 5,809,627 | 5,845,863 | - | - | 5,809,627 | 5,845,863 |
| Education | 11,072,636 | 10,817,937 | - | - | 11,072,636 | 10,817,937 |
| Public works | 1,372,489 | 1,518,867 | - | - | 1,372,489 | 1,518,867 |
| Health and human services | 585,545 | 586,502 | - | - | 585,545 | 586,502 |
| Culture and recreation | 610,735 | 356,785 | - | - | 610,735 | 356,785 |
| Community development | 534,617 | 951,448 | - | - | 534,617 | 951,448 |
| Debt service | 52,042 | 55,554 | - | - | 52,042 | 55,554 |
| Water | - | - | 2,048,969 | 2,061,131 | 2,048,969 | 2,061,131 |
| Sewer | - | - | 1,704,839 | 1,788,990 | 1,704,839 | 1,788,990 |
| Total Expenses | 22,217,436 | 22,269,615 | 3,753,808 | 3,850,121 | 25,971,244 | 26,119,736 |
| Increase in net position before transfers | 1,297,318 | (901,192) | 241,551 | 59,132 | 1,538,869 | (842,060) |
| Transfers | 204,278 | 433,523 | (204,278) | (433,523) | - | - |
| Increase in net position after transfers | 1,501,596 | (467,669) | 37,273 | (374,391) | 1,538,869 | (842,060) |
| Net position, beginning of year | 8,436,271 | 8,903,940 | 29,890,945 | 30,265,336 | 38,327,216 | 39,169,276 |
| Net position, end of year | <u>\$ 9,937,867</u> | <u>\$ 8,436,271</u> | <u>\$ 29,928,218</u> | <u>\$ 29,890,945</u> | <u>\$ 39,866,085</u> | <u>\$ 38,327,216</u> |

Governmental Activities. The Town relies significantly on property taxes, which during 2014 was approximately \$0.3 million greater than the prior year due to proposition 2 ½ increases. No other income categorization represented more than 10% of total revenues in fiscal year 2014 or 2013.

Major expenses during fiscal 2014 were for education and public safety which comprised 49.8%, and 25.2% respectfully 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 2014 or 2013.

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 96.2% of total revenues. Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 51.0% pertains to direct operational costs with the remaining costs represented by debt service (approximately 16.6%) and current year depreciation (approximately 32.4%).

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 surplus of approximately \$1.7 million. This is flat with the previous year as increases in the general fund of \$0.6 million were offset by decreases in the other funds by approximately the same amount. Of the ending fund balance approximately \$0.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

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 \$1.4 million, while total fund balance reached \$1.6 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 6.9% of total General Fund expenditures, while total fund balance represents approximately 7.6% of that same amount.

The Town reported a restricted fund balance of approximately \$1.2 million in the Nonmajor Fund and an unassigned deficit balance of nearly \$0.8 million and \$0.4 million in the Nonmajor and Library Construction 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 \$2.5 million; and net position of the Sewer Fund amounted to approximately \$27.4 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, 2014, amounts to approximately \$48.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, machinery and equipment and reflects an increase of approximately \$2.2 million, net of depreciation, as a result of nearly \$3.8 million of fixed asset additions offset by over \$1.5 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 \$17.1 million. Of this amount approximately \$1.1 million represents general obligation bonds of governmental activities and approximately \$16.0 million represents general obligation bonds of business-type activities.

The Town's total long-term debt decreased by nearly \$1.1 million during the fiscal year as a result of anticipated scheduled pay downs of principal over \$1.14 million exceeding new issuances of \$80,000.

The Town will receive reimbursements for principal pay down of these notes in the amount of about \$0.20 million and future interest in the amount of approximately \$0.08 million as of the year ended June 30, 2014 from the Massachusetts Water Pollution Abatement Trust (MWPAT).

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 2014. 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 2015 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 personnel 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 2015 in December 2014.

The above items were considered when the Town developed its budget for fiscal year 2015.

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, 2014

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------------------------|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 9,035,649 | \$ 5,175,260 | \$ 14,210,909 |
| Receivables (net): | | | |
| Property taxes | 1,786,186 | - | 1,786,186 |
| User fees | - | 840,660 | 840,660 |
| Betterments | - | 3,307,516 | 3,307,516 |
| Intergovernmental | 964,896 | 57,996 | 1,022,892 |
| Capital assets, not being depreciated | 5,167,318 | 2,208,834 | 7,376,152 |
| Capital assets, net of accumulated depreciation | 5,219,027 | 35,593,096 | 40,812,123 |
| Total Assets | 22,173,076 | 47,183,362 | 69,356,438 |
| Liabilities | | | |
| Warrants and accounts payable | 930,035 | 75,186 | 1,005,221 |
| Accrued payroll and withholdings | 146,934 | 6,646 | 153,580 |
| Accrued interest expense | - | 260,365 | 260,365 |
| Retainage payable | 59,959 | - | 59,959 |
| Other liabilities | 38,027 | - | 38,027 |
| Bond anticipation notes | 6,968,714 | 800,000 | 7,768,714 |
| Noncurrent liabilities: | | | |
| Due within one year | 412,183 | 1,056,727 | 1,468,910 |
| Due in more than one year | 3,679,357 | 15,056,220 | 18,735,577 |
| Total Liabilities | 12,235,209 | 17,255,144 | 29,490,353 |
| Net Position | | | |
| Invested in capital assets | 9,256,143 | 21,038,009 | 30,294,152 |
| Restricted: | | | |
| Nonexpendable permanent funds | 54,145 | - | 54,145 |
| Expendable permanent funds | 28,932 | - | 28,932 |
| Federal and State grants | 246,585 | - | 246,585 |
| Other purposes | 935,047 | - | 935,047 |
| Unrestricted | (582,985) | 8,890,209 | 8,307,224 |
| Total Net Position | \$ 9,937,867 | \$ 29,928,218 | \$ 39,866,085 |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

| 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 |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 2,179,745 | \$ 653,262 | \$ 6,909 | \$ - | \$ (1,519,574) | | \$ (1,519,574) |
| Public safety | 5,809,627 | 1,052,541 | 159,018 | 10,000 | (4,588,068) | | (4,588,068) |
| Education | 11,072,636 | - | 78,951 | - | (10,993,685) | | (10,993,685) |
| Public works | 1,372,489 | - | - | 1,389,662 | 17,173 | | 17,173 |
| Health and human services | 585,545 | 88,287 | 258,577 | - | (238,681) | | (238,681) |
| Culture and recreation | 610,735 | 22,056 | 7,888 | 830,961 | 250,170 | | 250,170 |
| Community development | 534,617 | 62,821 | 340,250 | 17,418 | (114,128) | | (114,128) |
| Debt service | 52,042 | - | - | - | (52,042) | | (52,042) |
| Total governmental activities | <u>22,217,436</u> | <u>1,878,967</u> | <u>851,593</u> | <u>2,248,041</u> | <u>(17,238,835)</u> | | <u>(17,238,835)</u> |
| Business-type activities: | | | | | | | |
| Water | 2,048,969 | 2,256,339 | 2,856 | - | \$ 210,226 | | 210,226 |
| Sewer | 1,704,839 | 1,588,969 | - | - | (115,870) | | (115,870) |
| Total business-type activities | <u>3,753,808</u> | <u>3,845,308</u> | <u>2,856</u> | <u>-</u> | <u>94,356</u> | | <u>94,356</u> |
| Total Primary Government | <u>\$ 25,971,244</u> | <u>\$ 5,724,275</u> | <u>\$ 854,449</u> | <u>\$ 2,248,041</u> | <u>(17,238,835)</u> | <u>94,356</u> | <u>(17,144,479)</u> |
| <u>General Revenues:</u> | | | | | | | |
| Property taxes | | | | | 16,571,696 | - | 16,571,696 |
| Intergovernmental | | | | | 771,441 | 7,499 | 778,940 |
| Motor vehicle and other excise | | | | | 1,091,360 | - | 1,091,360 |
| Penalties and interest on taxes | | | | | 96,938 | - | 96,938 |
| Betterments | | | | | - | 122,709 | 122,709 |
| Investment income | | | | | 4,718 | 16,987 | 21,705 |
| Transfers (net) | | | | | 204,278 | (204,278) | - |
| Total general revenues and transfers | | | | | <u>18,740,431</u> | <u>(57,083)</u> | <u>18,683,348</u> |
| Change in Net Position | | | | | 1,501,596 | 37,273 | 1,538,869 |
| <u>Net Position:</u> | | | | | | | |
| Beginning of year | | | | | 8,436,271 | 29,890,945 | 38,327,216 |
| End of year | | | | | <u>\$ 9,937,867</u> | <u>\$ 29,928,218</u> | <u>\$ 39,866,085</u> |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

| | General Funds | Library Construction | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------|----------------------------|----------------------------|-----------------------------------|--------------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,742,381 | \$ 5,920,227 | \$ 1,373,041 | \$ 9,035,649 |
| Receivables: | | | | |
| Property taxes | 1,621,208 | - | - | 1,621,208 |
| Departmental and other | 164,977 | - | - | 164,977 |
| Intergovernmental | 213,266 | - | 751,630 | 964,896 |
| Total Assets | <u>3,741,832</u> | <u>5,920,227</u> | <u>2,124,671</u> | <u>11,786,730</u> |
| Deferred Outflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u><u>3,741,832</u></u> | <u><u>5,920,227</u></u> | <u><u>2,124,671</u></u> | <u><u>11,786,730</u></u> |
| Liabilities: | | | | |
| Liabilities: | | | | |
| Warrants and accounts payable | 147,714 | 259,056 | 579,351 | 986,121 |
| Accrued payroll | 105,022 | - | 4,052 | 109,074 |
| Retainage Payable | - | 13,635 | 46,324 | 59,959 |
| Bond anticipation notes | - | 6,000,000 | 968,714 | 6,968,714 |
| Other liabilities | - | - | 19,801 | 19,801 |
| Total Liabilities | <u>252,736</u> | <u>6,272,691</u> | <u>1,618,242</u> | <u>8,143,669</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - property taxes | 1,621,208 | - | - | 1,621,208 |
| Unavailable revenue - excise taxes | 164,977 | - | - | 164,977 |
| Unavailable revenue - other | 145,667 | - | - | 145,667 |
| Total Deferred Inflows of Resources | <u>1,931,852</u> | <u>-</u> | <u>-</u> | <u>1,931,852</u> |
| Fund Balances: | | | | |
| Non-spendable | - | - | 54,145 | 54,145 |
| Restricted | - | - | 1,210,564 | 1,210,564 |
| Committed | 156,112 | - | - | 156,112 |
| Unassigned | 1,401,132 | (352,464) | (758,280) | 290,388 |
| Total Fund Balances | <u>1,557,244</u> | <u>(352,464)</u> | <u>506,429</u> | <u>1,711,209</u> |
| Total Liabilities and Fund Balances | <u><u>\$ 3,741,832</u></u> | <u><u>\$ 5,920,227</u></u> | <u><u>\$ 2,124,671</u></u> | <u><u>\$ 11,786,730</u></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, 2014**

| | |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Total Governmental Fund Balances | \$ 1,711,209 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 10,386,345 |
| Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds. | 1,931,852 |
| 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 | (1,101,876) |
| Capital lease obligations | (28,326) |
| Post-closing landfill monitoring costs | (284,500) |
| Compensated absences | (873,326) |
| Other postemployment benefits | <u>(1,803,512)</u> |
| Net Position of Governmental Activities | <u><u>\$ 9,937,866</u></u> |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General Funds | Library Construction | Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------------------------------------------------|---------------------|-------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 17,027,862 | \$ - | \$ - | \$ 17,027,862 |
| Intergovernmental | 1,139,650 | 771,237 | 2,335,932 | 4,246,819 |
| Excise taxes | 1,110,257 | - | - | 1,110,257 |
| Licenses and permits | 426,426 | - | - | 426,426 |
| Departmental and other revenue | 598,169 | - | 695,270 | 1,293,439 |
| Penalties and interest on taxes | 96,938 | - | - | 96,938 |
| Fines and forfeitures | 97,357 | - | - | 97,357 |
| Investment income | 4,021 | 503 | 194 | 4,718 |
| Contributions and donations | - | 12,744 | 73,745 | 86,489 |
| Total Revenues | <u>20,500,680</u> | <u>784,484</u> | <u>3,105,141</u> | <u>24,390,305</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,484,950 | - | 177,800 | 1,662,750 |
| Public safety | 3,667,459 | - | 651,550 | 4,319,009 |
| Education | 10,940,689 | - | - | 10,940,689 |
| Public works | 1,134,527 | - | 1,378,187 | 2,512,714 |
| Health and human services | 436,439 | - | 51,525 | 487,964 |
| Culture and recreation | 199,557 | 1,136,948 | 408,689 | 1,745,194 |
| Community development | - | - | - | - |
| Fringe and pension benefits | 2,163,297 | - | - | 2,163,297 |
| State and county tax assessments | 180,835 | - | - | 180,835 |
| Debt service: | | | | |
| Principal | 115,299 | - | 455 | 115,754 |
| Interest | 51,587 | - | 485,606 | 537,193 |
| Total Expenditures | <u>20,374,639</u> | <u>1,136,948</u> | <u>3,153,812</u> | <u>24,665,399</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>126,041</u> | <u>(352,464)</u> | <u>(48,671)</u> | <u>(275,094)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 467,218 | - | 14,678 | 481,896 |
| Transfers out | - | - | (277,618) | (277,618) |
| Proceeds from long-term debt issuance | - | - | 79,879 | 79,879 |
| Capital leases | - | - | 33,416 | 33,416 |
| Total Other Financing Sources (Uses) | <u>467,218</u> | <u>-</u> | <u>(149,645)</u> | <u>317,573</u> |
| Net Change in Fund Balances | 593,259 | (352,464) | (198,316) | 42,479 |
| Fund Balances - Beginning | 963,985 | - | 704,745 | 1,668,730 |
| Fund Balances - Ending | <u>\$ 1,557,244</u> | <u>\$ (352,464)</u> | <u>\$ 506,429</u> | <u>\$ 1,711,209</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, 2014**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 42,479**

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 | \$ 2,947,343 | |
| Depreciation Expense | (320,392) | |
| Net effect of reporting fixed assets | | 2,626,951 |

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 deferred and amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

| | | |
|---------------------------------------------------------|----------|--------|
| Repayments of debt principal | 115,299 | |
| Proceeds from bank note transactions | (79,879) | |
| Additions to capital lease obligations | (33,416) | |
| Payments of minimum capital lease principal obligations | 41,355 | |
| Net effect of reporting long-term debt | | 43,359 |

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the differences derived from deferred revenue.

(875,551)

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 | |
| Compensated absences | (10,198) | |
| Other postemployment benefits | (345,444) | |
| Net effect of reporting long-term liabilities | | (335,642) |

Change in Net Position of Governmental Activities **\$ 1,501,596**

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2014

| | Business-type Activities - Enterprise Funds | | |
|-------------------------------------|---------------------------------------------|----------------------|----------------------|
| | Water | Sewer | Totals |
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,455,201 | \$ 3,720,059 | \$ 5,175,260 |
| Receivables, net: | | | |
| User charges | 303,805 | 536,855 | 840,660 |
| Betterments | - | 7,536 | 7,536 |
| Intergovernmental | - | 10,925 | 10,925 |
| Total current assets | <u>1,759,006</u> | <u>4,275,375</u> | <u>6,034,381</u> |
| Noncurrent assets: | | | |
| Receivables, net: | | | |
| Betterments | - | 3,299,980 | 3,299,980 |
| Intergovernmental | - | 47,071 | 47,071 |
| Land | 369,002 | 1,383,999 | 1,753,001 |
| Construction in progress | 418,735 | 37,098 | 455,833 |
| Capital assets, net of depreciation | 12,384,670 | 23,208,426 | 35,593,096 |
| Total noncurrent assets | <u>13,172,407</u> | <u>27,976,574</u> | <u>41,148,981</u> |
| Total Assets | <u>14,931,413</u> | <u>32,251,949</u> | <u>47,183,362</u> |
| Liabilities: | | | |
| Current liabilities: | | | |
| Warrants and accounts payable | 37,968 | 43,864 | 81,832 |
| Accrued interest | 188,047 | 72,318 | 260,365 |
| Bond anticipation notes payable | 800,000 | - | 800,000 |
| Bonds and notes payable | 487,971 | 552,400 | 1,040,371 |
| Compensated absences | - | 16,356 | 16,356 |
| Total current liabilities | <u>1,513,986</u> | <u>684,938</u> | <u>2,198,924</u> |
| Noncurrent liabilities: | | | |
| Bonds and notes payable | 10,880,750 | 4,042,800 | 14,923,550 |
| Compensated absences | - | 49,067 | 49,067 |
| Other postemployment benefits | - | 83,603 | 83,603 |
| Total noncurrent liabilities | <u>10,880,750</u> | <u>4,175,470</u> | <u>15,056,220</u> |
| Total Liabilities | <u>12,394,736</u> | <u>4,860,408</u> | <u>17,255,144</u> |
| Net Position: | | | |
| Invested in capital assets | 1,003,686 | 20,034,323 | 21,038,009 |
| Unrestricted | 1,532,991 | 7,357,218 | 8,890,209 |
| Total Net Position | <u>\$ 2,536,677</u> | <u>\$ 27,391,541</u> | <u>\$ 29,928,218</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, 2014**

| | Business-type Activities - Enterprise Funds | | |
|-----------------------------------------------------------------|---------------------------------------------|----------------------|----------------------|
| | Water | Sewer | Totals |
| Operating Revenues: | | | |
| Charges for services | \$ 2,259,195 | \$ 1,588,969 | \$ 3,848,164 |
| Total Operating Revenues | <u>2,259,195</u> | <u>1,588,969</u> | <u>3,848,164</u> |
| Operating Expenses: | | | |
| Operating costs | 1,212,845 | 699,650 | 1,912,495 |
| Depreciation | 389,505 | 827,201 | 1,216,706 |
| Total Operating Expenses | <u>1,602,350</u> | <u>1,526,851</u> | <u>3,129,201</u> |
| Operating Income (Loss) | <u>656,845</u> | <u>62,118</u> | <u>718,963</u> |
| Nonoperating Revenues (Expenses): | | | |
| Intergovernmental | - | 7,499 | 7,499 |
| Interest income | 5,782 | 11,205 | 16,987 |
| Interest expense | (446,619) | (177,988) | (624,607) |
| Total Nonoperating Revenues (Expenses) | <u>(440,837)</u> | <u>(159,284)</u> | <u>(600,121)</u> |
| Income (Loss) Before Capital Donations and Transfers | <u>216,008</u> | <u>(97,166)</u> | <u>118,842</u> |
| Capital Contributions | | | |
| Betterments | - | 122,709 | 122,709 |
| Transfers in | 233,675 | - | 233,675 |
| Transfers out | (125,236) | (312,717) | (437,953) |
| Change in Net Position | 324,447 | (287,174) | 37,273 |
| Total Net Position - Beginning | <u>2,212,230</u> | <u>27,678,715</u> | <u>29,890,945</u> |
| Total Net Position - Ending | <u>\$ 2,536,677</u> | <u>\$ 27,391,541</u> | <u>\$ 29,928,218</u> |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014**

| | Business-Type Activities Enterprise Funds | | |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------|--------------|
| | Water | Sewer | Total |
| Cash Flows from Operating Activities: | | | |
| Receipts from users | \$ 2,271,219 | \$ 1,576,086 | \$ 3,847,305 |
| Payments employees | - | (303,331) | (303,331) |
| Payments to vendors | (1,217,213) | (389,975) | (1,607,188) |
| Net Cash Provided by Operating Activities | 1,054,006 | 882,780 | 1,936,786 |
| Cash Flows from Noncapital Related Financing Activities: | | | |
| Receipts from betterments | - | 548,450 | 548,450 |
| Transfers out | 108,439 | (312,717) | (204,278) |
| Net Cash Provided by Noncapital Financing Activities | 108,439 | 235,733 | 344,172 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Government subsidy | - | 18,693 | 18,693 |
| Acquisition and construction of capital assets | (761,896) | (47,152) | (809,048) |
| Principal payments on bonds and notes | (470,926) | (551,200) | (1,022,126) |
| Interest expense | (453,135) | (189,237) | (642,372) |
| Net Cash Used for Capital and Related Financing Activities | (1,685,957) | (768,896) | (2,454,853) |
| Cash Flows from Investing Activities: | | | |
| Interest income | 5,782 | 11,205 | 16,987 |
| Net Cash Provided by Investing Activities | 5,782 | 11,205 | 16,987 |
| Net Change in Cash and Cash Equivalents | (517,730) | 360,822 | (156,908) |
| Cash and Cash Equivalents: | | | |
| Beginning of year | \$ 1,972,931 | 3,359,237 | 5,332,168 |
| End of year | \$ 1,455,201 | \$ 3,720,059 | \$ 5,175,260 |
| Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities: | | | |
| Operating income (loss) | \$ 656,845 | \$ 62,118 | \$ 718,963 |
| Depreciation expense | 389,505 | 827,201 | 1,216,706 |
| Changes in assets and liabilities: | | | |
| Receivables | 12,024 | (12,883) | (859) |
| Accounts payable and accrued expenses | (4,368) | 6,344 | 1,976 |
| Net Cash Provided by Operating Activities | \$ 1,054,006 | \$ 882,780 | \$ 1,936,786 |

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

TOWN OF SALISBURY, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

| | Private Purpose Trust Funds | Agency Funds |
|--------------------------------|-----------------------------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 474,713 | \$ 94,328 |
| Total Assets | 474,713 | 94,328 |
| Liabilities | | |
| Planning and performance bonds | - | 94,328 |
| Total Liabilities | - | 94,328 |
| Net Position | | |
| Held in trust | 474,173 | - |
| Total Net Position | \$ 474,173 | \$ - |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014

| | <u>Private Purpose Trust Funds</u> |
|-------------------------------|--------------------------------------------|
| Additions: | |
| Investment income | \$ 1,962 |
| Other income | <u>123,404</u> |
| Total Additions | <u>125,366</u> |
| Deductions: | |
| Public housing assistance | <u>30,066</u> |
| Total Deductions | <u>30,066</u> |
| Change in Net Position | 95,300 |
| Net Position - Beginning | <u>378,873</u> |
| Net Position - Ending | <u><u>\$ 474,173</u></u> |

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 2014, the Town's share of the operating and debt service expenses was \$10,281,528. 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.

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

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

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

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, and Net Position or 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 deferred and 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.

Net Position – In the government-wide financial statements, net position reported as “invested in capital assets, net of related debt” 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 and outstanding debt related to future state reimbursements for capital construction costs 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 – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, 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.

The Town's non-spendable fund balance reported in the Nonmajor governmental funds consists of the corpus of endowments for various Town purposes in the amount of \$54,145.

The Town reports the following restricted fund balances:

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 constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. 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 authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

The Town does not report any assigned fund balance.

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.

Negative unassigned amounts reported in the Nonmajor Governmental Funds include deficits that will be raised through future bond issuance or grant reimbursement.

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.

The following represent the categorizations of fund balance:

| | General | Library Construction Fund | Nonmajor Governmental Funds | Total |
|---------------------------|---------------------|---------------------------------|-----------------------------------|---------------------|
| Non-Spendable: | | | | |
| Perpetual permanent funds | \$ - | \$ - | \$ 54,145 | \$ 54,145 |
| Committed: | | | | |
| General government | 75,153 | - | - | 75,153 |
| Public works | 28,709 | - | - | 28,709 |
| Restricted: | | | | |
| General government | - | - | 245,306 | 245,306 |
| Public safety | - | - | 284,238 | 284,238 |
| Public works | - | - | 218,140 | 218,140 |
| Health and human services | - | - | 103,329 | 103,329 |
| Culture and recreation | - | - | 64,360 | 64,360 |
| Community preservation | - | - | 295,191 | 295,191 |
| Unassigned | 1,401,132 | (352,464) | (758,280) | 290,388 |
| Totals | \$ 1,557,244 | \$ (352,464) | \$ 506,429 | \$ 1,711,209 |

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.

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 2015.

The Town incurred deficits in certain of its grant funds, capital project funds and the Library Construction fund in the aggregate amount of \$1,110,774. 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 \$14,779,950 and the bank balance was \$15,129,186. Of the Town's bank balance, \$14,249,819 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**

MWPAT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$203,663 and interest in the amount of \$84,407 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements; therefore, the principal amounts of \$145,667 and \$57,996 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:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|-----------------------------------------|-------------------------|-----------------------------------------|-----------------------|
| Receivables: | | | |
| Real estate and personal property taxes | \$ 555,809 | \$ (191,433) | \$ 364,376 |
| Tax deferrals | 60,694 | - | 60,694 |
| Tax liens | 821,709 | - | 821,709 |
| Tax foreclosures | 374,428 | - | 374,428 |
| Excise taxes | 317,590 | (152,612) | 164,978 |
| Intergovernmental | 964,896 | - | 964,896 |
| Total | <u>\$ 3,095,126</u> | <u>\$ (344,045)</u> | <u>\$ 2,751,081</u> |

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

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|-----------------------------------|-------------------------|-----------------------------------------|-----------------------|
| Receivables: | | | |
| Sewer user fees | \$ 536,855 | \$ - | \$ 536,855 |
| Sewer liens | 6,143 | - | 6,143 |
| Sewer betterments - apportioned | 7,536 | - | 7,536 |
| Sewer betterments - unapportioned | 3,299,980 | - | 3,299,980 |
| Water user fees | 301,203 | - | 301,203 |
| Water liens | 2,602 | - | 2,602 |
| Intergovernmental | 57,996 | - | 57,996 |
| Total | <u>\$ 4,212,315</u> | <u>\$ -</u> | <u>\$ 4,212,315</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 unavailable revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of unavailable revenue in the governmental funds:

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|-----------------------------------------|-------------------------|-----------------------------------------|---------------------|
| Receivable type: | | | |
| Real estate and personal property taxes | \$ 364,377 | \$ - | \$ 364,377 |
| Tax deferrals | 60,694 | - | 60,694 |
| Tax liens | 821,709 | - | 821,709 |
| Tax foreclosures | 374,428 | - | 374,428 |
| Excise taxes | 164,977 | - | 164,977 |
| Intergovernmental | 145,667 | - | 145,667 |
| Total | <u>\$ 1,931,852</u> | <u>\$ -</u> | <u>\$ 1,931,852</u> |

C. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---------------------------------------------|----------------------|---------------------|-------------|----------------------|
| <i>Governmental Activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,818,550 | \$ - | \$ - | \$ 2,818,550 |
| Construction in process | 152,885 | 2,195,883 | - | 2,348,768 |
| Total capital assets not being depreciated | <u>2,971,435</u> | <u>2,195,883</u> | <u>-</u> | <u>5,167,318</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,910,957 | - | - | 2,910,957 |
| Infrastructure | 7,083,551 | 632,715 | - | 7,716,266 |
| Machinery and equipment | 1,413,462 | - | - | 1,413,462 |
| Vehicles | 2,250,069 | 118,745 | - | 2,368,814 |
| Total capital assets being depreciated | <u>13,658,039</u> | <u>751,460</u> | <u>-</u> | <u>14,409,499</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,594,324) | (51,916) | - | (1,646,240) |
| Infrastructure | (4,372,904) | (109,568) | - | (4,482,472) |
| Machinery and equipment | (909,265) | (90,247) | - | (999,512) |
| Vehicles | (1,993,587) | (68,661) | - | (2,062,248) |
| Total accumulated depreciation | <u>(8,870,080)</u> | <u>(320,392)</u> | <u>-</u> | <u>(9,190,472)</u> |
| Total capital assets being depreciated, net | <u>4,787,959</u> | <u>431,068</u> | <u>-</u> | <u>5,219,027</u> |
| Governmental activities capital assets, net | <u>\$ 7,759,394</u> | <u>\$ 2,626,951</u> | <u>\$ -</u> | <u>\$ 10,386,345</u> |
| <i>Business Activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,753,001 | \$ - | \$ - | \$ 1,753,001 |
| Construction in process | 190,815 | 265,018 | - | 455,833 |
| Total capital assets not being depreciated | <u>1,943,816</u> | <u>265,018</u> | <u>-</u> | <u>2,208,834</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 19,050 | - | - | 19,050 |
| Infrastructure | 56,175,507 | 275,458 | - | 56,450,965 |
| Machinery and equipment | 648,492 | 268,572 | - | 917,064 |
| Vehicles | 174,692 | - | - | 174,692 |
| Total capital assets being depreciated | <u>57,017,741</u> | <u>544,030</u> | <u>-</u> | <u>57,561,771</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (126) | (762) | - | (888) |
| Infrastructure | (20,224,825) | (1,185,709) | - | (21,410,534) |
| Machinery and equipment | (352,324) | (30,236) | - | (382,560) |
| Vehicles | (174,692) | - | - | (174,692) |
| Total accumulated depreciation | <u>(20,751,967)</u> | <u>(1,216,707)</u> | <u>-</u> | <u>(21,968,674)</u> |
| Total capital assets being depreciated, net | <u>36,265,774</u> | <u>(672,677)</u> | <u>-</u> | <u>35,593,097</u> |
| Business activities capital assets, net | <u>\$ 38,209,590</u> | <u>\$ (407,659)</u> | <u>\$ -</u> | <u>\$ 37,801,931</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---------------------------------------------------|----------------------|-----------|-----------|-------------------|
| <u>Business-type Activities: Water</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 369,002 | \$ - | \$ - | \$ 369,002 |
| Construction in process | 158,408 | 260,327 | - | 418,735 |
| Total capital assets not being depreciated | 527,410 | 260,327 | - | 787,737 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 15,709,570 | 275,458 | - | 15,985,028 |
| Machinery and equipment | 339,669 | 226,111 | - | 565,780 |
| Total capital assets being depreciated | 16,049,239 | 501,569 | - | 16,550,808 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (3,475,358) | (375,537) | - | (3,850,895) |
| Machinery and equipment | (301,274) | (13,969) | - | (315,243) |
| Total accumulated depreciation | (3,776,632) | (389,506) | - | (4,166,138) |
| Total Water capital assets being depreciated, net | 12,272,607 | 112,063 | - | 12,384,670 |

| | | | | |
|------------------------------------------------------|---------------|--------------|------|---------------|
| <u>Business-type Activities: Sewer</u> | | | | |
| Capital assets being depreciated: | | | | |
| Land | 1,383,999 | - | - | 1,383,999 |
| Construction in process | 32,407 | 4,691 | - | 37,098 |
| Total capital assets not being depreciated | 1,416,406 | 4,691 | - | 1,421,097 |
| Capital assets being depreciated: | | | | |
| Buildings | 19,050 | - | - | 19,050 |
| Infrastructure | 40,465,937 | - | - | 40,465,937 |
| Machinery and equipment | 308,823 | 42,461 | - | 351,284 |
| Vehicles | 174,692 | - | - | 174,692 |
| Total capital assets being depreciated | 40,968,502 | 42,461 | - | 41,010,963 |
| Less accumulated depreciation for: | | | | |
| Buildings | (126) | (762) | - | (888) |
| Infrastructure | (16,749,467) | (810,172) | - | (17,559,639) |
| Machinery and equipment | (51,050) | (16,267) | - | (67,317) |
| Vehicles | (174,692) | - | - | (174,692) |
| Total accumulated depreciation | (16,975,335) | (827,201) | - | (17,802,536) |
| Total Sewer capital assets being depreciated, net | 23,993,167 | (784,740) | - | 23,208,427 |
| Total Business-type activities - capital assets, net | \$ 38,209,590 | \$ (407,659) | \$ - | \$ 37,801,931 |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|-------------------------------|------------|
| General government | \$ 31,690 |
| Public safety | 100,983 |
| Public works | 149,218 |
| Culture and recreation | 38,501 |
| Total Governmental Activities | \$ 320,392 |

Business-Type Activities:

| | |
|--------------------------------|--------------|
| Water | \$ 389,506 |
| Sewer | 827,201 |
| Total Business-Type Activities | \$ 1,216,707 |

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2014, are summarized as follows:

| Transfers Out | Transfers In | | | |
|-----------------------------|-------------------|------------------|-------------------|-------------------|
| | General Fund | Nonmajor Funds | Water Funds | Total |
| General Fund | \$ - | \$ - | \$ - | \$ - |
| Nonmajor Governmental Funds | 29,265 | 14,678 | 233,675 | 277,618 (1) |
| Water Enterprise Fund | 125,236 | - | - | 125,236 (2) |
| Sewer Enterprise Fund | 312,717 | - | - | 312,717 (2) |
| Total | <u>\$ 467,218</u> | <u>\$ 14,678</u> | <u>\$ 233,675</u> | <u>\$ 715,571</u> |

(1) Transfers to general fund and water fund to supplement operating budgets. Transfer between nonmajor funds to supplement waterways and harbor commission.

(2) Transfers to General Fund for indirect costs.

C. Temporary Debt

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

| Type | Interest Rate | Maturity Date | July 1, 2013 | Additions | Retirements | June 30, 2014 |
|-----------------------------------|---------------|---------------|---------------------|---------------------|-----------------------|---------------------|
| BAN | 0.06% | matured | \$ 70,000 | \$ - | \$ (70,000) | \$ - |
| BAN | 0.80% | 03/25/15 | - | 47,000 | - | 47,000 |
| BAN | 1.00% | 03/25/15 | - | 6,100,000 | - | 6,100,000 |
| GAAN | 0.50% | 08/29/14 | - | 821,714 | - | 821,714 |
| Total Governmental Notes | | | <u>70,000</u> | <u>6,968,714</u> | <u>(70,000)</u> | <u>6,968,714</u> |
| BAN | 0.55% | matured | 800,000 | - | (800,000) | - |
| BAN | 0.80% | 03/25/15 | - | 800,000 | - | 800,000 |
| Total Business-Type Notes - Water | | | <u>940,000</u> | <u>14,737,428</u> | <u>(940,000)</u> | <u>800,000</u> |
| Total Notes Payable | | | <u>\$ 1,010,000</u> | <u>\$21,706,142</u> | <u>\$ (1,010,000)</u> | <u>\$ 7,768,714</u> |

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.

Temporary notes are general obligations of the Town 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. The interim note in the Water Fund outstanding on that date was issued for the construction of a water tank.

E. 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”.

MWPAT Loan Subsidies – As previously noted in Note I. B., the Town has entered into loan agreements with the MWPAT. It is expected that the Town will be subsidized by MWPAT on an annual basis for principal in the amount of \$203,663 until maturity. For the year ended June 30, 2014, total principal subsidies received was \$23,052, reported within the Governmental Funds.

Authorized and Unissued Debt – At June 30, 2014, the Town had authorized and unissued debt as follows:

| <u>Project</u> | <u>Amount</u> |
|-------------------------------|---------------------|
| Police Station Design | \$ 97,700 |
| Environmental Remediation | 200,000 |
| Town Creek Culvert | 378,286 |
| Water | 700,000 |
| Park Reimbursable Grant | 863,000 |
| Energy Conservation | 1,183,585 |
| Library Construction | <u>1,500,000</u> |
| Total authorized and unissued | <u>\$ 4,922,571</u> |

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2014 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 | \$ 15,265,000 | 35.80% | \$ 798,419 |

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2014:

| Description of Issue | Maturing Year | Interest Rate | Beginning Balance | Additions | Maturities | Ending Balance |
|--------------------------------------------------|---------------|---------------|----------------------|------------------|-----------------------|----------------------|
| <i>Governmental Activities:</i> | | | | | | |
| General Obligation Bonds | 2027 | 3.0 - 4.0% | \$ 560,000 | \$ - | \$ (40,000) | \$ 520,000 |
| MWPAT Note | 2019 | Varies | 577,296 | - | (75,299) | 501,997 |
| Newburyport Five Cent Savings Bank Note | 2016 | 2.19% | - | 79,879 | - | 79,879 |
| Total Governmental Bond and Note Indebtedness | | | <u>1,137,296</u> | <u>79,879</u> | <u>(115,299)</u> | <u>1,101,876</u> |
| <i>Business-type Activities - Water</i> | | | | | | |
| General Obligation Refunding Bond | 2030 | 3.5 - 5.0% | 9,660,000 | - | (370,000) | 9,290,000 |
| MWPAT Note | 2030 | 2.0% | 2,068,385 | - | (96,425) | 1,971,960 |
| MWPAT Note | 2033 | 2.0% | 111,262 | - | (4,501) | 106,761 |
| Total Water Bond and Note Indebtedness | | | <u>11,839,647</u> | <u>-</u> | <u>(470,926)</u> | <u>11,368,721</u> |
| <i>Business-type Activities - Sewer</i> | | | | | | |
| General Obligation Bond | 2031 | 3.0 - 4.0% | 3,540,000 | - | (200,000) | 3,340,000 |
| General Obligation Refunding Bonds | 2019 | 3.5 - 4.0% | 1,340,000 | - | (310,000) | 1,030,000 |
| MWPAT Note | 2018 | Varies | 266,400 | - | (41,200) | 225,200 |
| Total Sewer Bond and Note Indebtedness | | | <u>5,146,400</u> | <u>-</u> | <u>(551,200)</u> | <u>4,595,200</u> |
| Total Business-type Bond and Note Indebtedness | | | <u>16,986,047</u> | <u>-</u> | <u>(1,022,126)</u> | <u>15,963,921</u> |
| Total Long-Term Bond and Note Indebtedness - All | | | <u>\$ 18,123,343</u> | <u>\$ 79,879</u> | <u>\$ (1,137,425)</u> | <u>\$ 17,065,797</u> |

During the year ended June 30, 2014, the following reflects the activity in the long-term liability accounts:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due within one year |
|-------------------------------------------------|----------------------|-------------------|-----------------------|----------------------|---------------------|
| <i>Governmental Activities:</i> | | | | | |
| Bond and note indebtedness | \$ 1,137,296 | \$ 79,879 | \$ (115,299) | \$ 1,101,876 | \$ 145,525 |
| Capital lease obligations | 36,265 | 33,416 | (41,355) | 28,326 | 28,326 |
| Post-closure landfill monitoring | 304,500 | - | (20,000) | 284,500 | 20,000 |
| Compensated absences, net | 863,128 | 10,198 | - | 873,326 | 218,332 |
| Other postemployment benefits | 1,458,068 | 597,328 | (251,884) | 1,803,512 | - |
| Total Governmental Activities | <u>\$ 3,799,257</u> | <u>\$ 720,821</u> | <u>\$ (428,538)</u> | <u>\$ 4,091,540</u> | <u>\$ 412,183</u> |
| <i>Business-type Activities: Water</i> | | | | | |
| Bond and note indebtedness | \$ 11,839,647 | \$ - | \$ (470,926) | \$ 11,368,721 | \$ 487,971 |
| Total Business-type Activities: Water and Sewer | <u>11,839,647</u> | <u>-</u> | <u>(470,926)</u> | <u>11,368,721</u> | <u>487,971</u> |
| <i>Business-type Activities: Sewer</i> | | | | | |
| Bond and note indebtedness | 5,146,400 | - | (551,200) | 4,595,200 | 552,400 |
| Compensated absences, net | 64,848 | 575 | - | 65,423 | 16,356 |
| Other postemployment benefits | 71,704 | 20,576 | (8,677) | 83,603 | - |
| Total Business-type Activities: Sewer | <u>5,282,952</u> | <u>21,151</u> | <u>(559,877)</u> | <u>4,744,226</u> | <u>568,756</u> |
| Total Business-type Activities: All | <u>\$ 17,122,599</u> | <u>\$ 21,151</u> | <u>\$ (1,030,803)</u> | <u>\$ 16,112,947</u> | <u>\$ 1,056,727</u> |

Future Debt Payoff - Payments on general long-term debt obligation bonds 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 | | | | | | | |
| 2015 | 145,525 | (23,052) | 122,473 | 44,594 | (17,048) | 27,546 | 150,019 |
| 2016 | 146,110 | (23,247) | 122,863 | 38,526 | (14,732) | 23,794 | 146,657 |
| 2017 | 150,876 | (23,460) | 127,416 | 32,402 | (12,421) | 19,981 | 147,397 |
| 2018 | 123,667 | (24,229) | 99,438 | 25,710 | (9,482) | 16,228 | 115,666 |
| 2019 | 127,849 | (25,364) | 102,485 | 20,146 | (6,546) | 13,600 | 116,085 |
| 2020-2024 | 287,849 | (26,315) | 261,534 | 46,416 | (2,416) | 44,000 | 305,534 |
| 2025-2029 | 120,000 | - | 120,000 | 7,200 | - | 7,200 | 127,200 |
| Total | <u>\$ 1,101,876</u> | <u>\$ (145,667)</u> | <u>\$ 956,209</u> | <u>\$ 214,994</u> | <u>\$ (62,645)</u> | <u>\$ 152,349</u> | <u>\$ 1,108,558</u> |

| <i>Business-type Activities: Water - Bond and Note Indebtedness</i> | | | | | | | |
|---------------------------------------------------------------------|----------------------|-------------|----------------------|---------------------|-------------|---------------------|----------------------|
| Year Ending | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| June 30 | | | | | | | |
| 2015 | 487,971 | - | 487,971 | 436,783 | - | 436,783 | 924,754 |
| 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 |
| 2020-2024 | 3,157,750 | - | 3,157,750 | 1,442,847 | - | 1,442,847 | 4,600,597 |
| 2025-2029 | 3,840,312 | - | 3,840,312 | 724,301 | - | 724,301 | 4,564,613 |
| 2030-2034 | 1,764,501 | - | 1,764,501 | 69,833 | - | 69,833 | 1,834,334 |
| Total | <u>\$ 11,368,721</u> | <u>\$ -</u> | <u>\$ 11,368,721</u> | <u>\$ 4,236,980</u> | <u>\$ -</u> | <u>\$ 4,236,980</u> | <u>\$ 15,605,701</u> |

| <i>Business-type Activities: Sewer - Bond and Note Indebtedness</i> | | | | | | | |
|---------------------------------------------------------------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| Year Ending | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| June 30 | | | | | | | |
| 2015 | 552,400 | (10,925) | 541,475 | 169,474 | (7,201) | 162,273 | 703,748 |
| 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 |
| 2020-2024 | 1,125,000 | - | 1,125,000 | 370,500 | - | 370,500 | 1,495,500 |
| 2025-2029 | 960,000 | - | 960,000 | 171,400 | - | 171,400 | 1,131,400 |
| 2030-2034 | 380,000 | - | 380,000 | 15,200 | - | 15,200 | 395,200 |
| Total | <u>\$ 4,595,200</u> | <u>\$ (57,996)</u> | <u>\$ 4,537,204</u> | <u>\$ 1,242,603</u> | <u>\$ (21,762)</u> | <u>\$ 1,220,841</u> | <u>\$ 5,758,045</u> |

| <i>Business-type Activities - Total Bond and Note Indebtedness</i> | | | | | | | |
|--------------------------------------------------------------------|----------------------|--------------------|----------------------|---------------------|--------------------|---------------------|----------------------|
| Year Ending | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| June 30 | | | | | | | |
| 2015 | 1,040,371 | (10,925) | 1,029,446 | 606,257 | (7,201) | 599,056 | 1,628,502 |
| 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 |
| 2020-2024 | 4,282,750 | - | 4,282,750 | 1,813,347 | - | 1,813,347 | 6,096,097 |
| 2025-2029 | 4,800,312 | - | 4,800,312 | 895,701 | - | 895,701 | 5,696,013 |
| 2030-2034 | 2,144,501 | - | 2,144,501 | 85,033 | - | 85,033 | 2,229,534 |
| Total | <u>\$ 15,963,921</u> | <u>\$ (57,996)</u> | <u>\$ 15,905,925</u> | <u>\$ 5,479,583</u> | <u>\$ (21,762)</u> | <u>\$ 5,457,821</u> | <u>\$ 21,363,746</u> |

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.

Assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| <i>Asset:</i> | |
| Police Chevy Tahoe | \$ 33,416 |
| Police Cruisers (2) | 51,665 |
| Less: accumulated depreciation | <u>(37,682)</u> |
| Total | <u>\$ 47,399</u> |

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2014, are as follows:

| <u>Fiscal Year Ended June 30,</u> | <u>Governmental Activities</u> |
|-----------------------------------------|------------------------------------|
| 2015 | <u>\$ 30,011</u> |
| Total minimum lease payments | 30,011 |
| Less: amounts representing interest | <u>(1,685)</u> |
| Present value of minimum lease payments | <u>\$ 28,326</u> |

III. Other Information

A. Retirement System

Plan Description - The Town contributes to the Essex Regional Retirement System (ERRS), a 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).

The ERRS 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 ERRB and are borne by the ERRS. The ERRS issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC) that includes financial statements and required supplementary information. The report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the ERRS for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the ERRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$940,286, \$893,320, and \$846,240 respectively, which equaled its required contribution for each year. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$78,951 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. 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.

D. 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:

| | |
|--------------------------------------|--------------------|
| OPEB obligation at beginning of year | \$1,529,772 |
| Annual required contribution (ARC) | 617,903 |
| Contributions made | <u>(260,561)</u> |
| OPEB obligation at end of year | <u>\$1,887,114</u> |

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

| <u>Fiscal Year</u> <u>Ending</u> | <u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u> | <u>Percentage of</u> <u>AOPEBC</u> <u>Contributed</u> | <u>Net OPEB</u> <u>Obligation</u> |
|-------------------------------------|------------------------------------------------------|-------------------------------------------------------------|--------------------------------------|
| June 30, 2010 | \$ 453,717 | 49.5% | \$ 454,883 |
| June 30, 2011 | \$ 472,158 | 50.9% | \$ 686,818 |
| June 30, 2012 | \$ 538,139 | 24.3% | \$1,093,809 |
| June 30, 2013 | \$ 570,029 | 23.8% | \$1,529,772 |
| June 30, 2014 | \$ 617,903 * | 42.2% | \$1,887,114 |

* The AOPEBC at June 30, 2014 was charged to the following functional programs in the Statement of Activities as follows: General Government \$103,638; Public Safety \$59,796, Public Works \$394,637, Health and Human Services \$13,909, Culture and Recreation \$14,638; Community Development \$10,709; and Sewer \$20,576.

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) | \$ 8,881,247 |
| Actuarial value of plan assets | <u>\$ -</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 8,881,247</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00% |
| 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 |

E. 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, 2014, 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, 2014. 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.

F. 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; \$284,500 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.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of GASB 65 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 became effective for the Town in fiscal year 2014 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 2014 and did not have a material effect on its financial statements.

B. Future 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 GASB 67 become effective for the ERRS as of December 31, 2014 the impact of which will be effective for the Town through the implementation of GASB 68 (see below). The impacts of GASB 67 and 68 are expected to have a material effect on the Town's financial statements.

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 this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town believes the adoption of this statement will have a material impact on the 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 this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the 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 this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF SALISBURY MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

SCHEDULES OF FUNDING PROGRESS

Pension System

| 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) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|-------------------------------------------------|
| 1/1/2013 | \$ 314,565,925 | \$ 619,339,080 | \$ 304,773,155 | 51.0% | \$ 119,292,287 | 255.5% |
| 1/1/2011 | \$ 278,332,006 | \$ 536,115,536 | \$ 257,783,530 | 51.9% | \$ 119,707,156 | 215.3% |
| 1/1/2008 | \$ 301,420,965 | \$ 445,171,554 | \$ 143,750,589 | 67.7% | \$ 111,726,856 | 128.7% |
| 1/1/2006 | \$ 261,327,047 | \$ 376,034,621 | \$ 114,707,574 | 69.5% | \$ 98,641,094 | 116.3% |

Other Post Employment 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 | \$ - | \$ 8,881,247 | \$ 8,881,247 | 0.0% | \$ 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% |

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

| Fiscal Year Ended June 30, | Essex Regional Retirement System | | | Town (B / A) | |
|----------------------------|----------------------------------|--------------------------|------------------------|-------------------------|-------------------------------------------------------|
| | Annual Required Contributions | (A) Actual Contributions | Percentage Contributed | (B) Actual Contribution | Town's Percentage of System Wide Actual Contributions |
| 2014 | \$ 24,592,599 | \$ 24,592,599 | 100.0% | \$ 940,286 | 3.8% |
| 2013 | \$ 22,770,925 | \$ 21,084,190 | 92.6% | \$ 893,320 | 4.2% |
| 2012 | \$ 21,084,190 | \$ 21,084,190 | 100.0% | \$ 846,240 | 4.0% |
| 2011 | \$ 19,136,746 | \$ 19,136,746 | 100.0% | \$ 699,024 | 3.7% |
| 2010 | \$ 18,258,062 | \$ 18,258,062 | 100.0% | \$ 689,851 | 3.8% |

Other Post Employment Benefits

| Year Ended June 30, | Annual Required Contributions | (A) Actual Contributions | Percentage Contributed |
|---------------------|-------------------------------|--------------------------|------------------------|
| 2014 | \$ 617,903 | \$ 260,561 | 42.2% |
| 2013 | \$ 562,737 | \$ 134,066 | 23.8% |
| 2012 | \$ 533,560 | \$ 131,148 | 24.6% |
| 2011 | \$ 472,158 | \$ 240,223 | 50.9% |
| 2010 | \$ 450,686 | \$ 224,544 | 49.8% |

See accompanying independent auditor's report.

TOWN OF SALISBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2014

| | Budgeted Amounts | | Actual Budgetary Amounts | Encumbrances | Actual Budgetary Adjusted | Variance Positive (Negative) |
|------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|--------------------------------|-------------------|---------------------------------|------------------------------------|
| | Original Budget | Final Budget | | | | |
| Revenues: | | | | | | |
| Property Taxes | \$ 16,839,765 | \$ 16,777,598 | \$ 17,027,861 | \$ - | \$ 17,027,861 | \$ 250,263 |
| Intergovernmental | 1,024,821 | 1,024,821 | 1,139,650 | - | 1,139,650 | 114,829 |
| Motor Vehicle and Other Excise | 980,000 | 980,000 | 1,110,257 | - | 1,110,257 | 130,257 |
| Departmental and Other Revenue | 575,000 | 575,000 | 598,169 | - | 598,169 | 23,169 |
| Licenses and Permits | 294,000 | 294,000 | 426,426 | - | 426,426 | 132,426 |
| Penalties and Interest | 108,000 | 108,000 | 96,938 | - | 96,938 | (11,062) |
| Fines and Forfeitures | 94,500 | 94,500 | 97,357 | - | 97,357 | 2,857 |
| Investment Income | 3,000 | 3,000 | 4,021 | - | 4,021 | 1,021 |
| Total Revenues | <u>19,919,086</u> | <u>19,856,919</u> | <u>20,500,679</u> | <u>-</u> | <u>20,500,679</u> | <u>643,760</u> |
| Expenditures: | | | | | | |
| General government | 1,510,215 | 1,571,677 | 1,484,950 | 75,153 | 1,560,103 | 11,574 |
| Public safety | 3,742,253 | 3,766,952 | 3,667,459 | 50,000 | 3,717,459 | 49,493 |
| Education | 10,948,407 | 10,948,407 | 10,940,689 | - | 10,940,689 | 7,718 |
| Public works | 1,096,045 | 1,145,097 | 1,134,527 | 28,709 | 1,163,236 | (18,139) |
| Health and human services | 404,582 | 402,377 | 436,439 | - | 436,439 | (34,062) |
| Culture and recreation | 203,848 | 203,548 | 199,557 | 2,250 | 201,807 | 1,741 |
| Fringe and pension benefits | 2,120,078 | 2,099,193 | 2,084,346 | - | 2,084,346 | 14,847 |
| State and county tax assessments | 179,884 | 179,884 | 180,835 | - | 180,835 | (951) |
| Debt service | 166,887 | 166,887 | 166,886 | - | 166,886 | 1 |
| Total Expenditures | <u>20,372,199</u> | <u>20,484,022</u> | <u>20,295,688</u> | <u>\$ 156,112</u> | <u>20,451,800</u> | <u>32,222</u> |
| Other Financing Sources (Uses): | | | | | | |
| Transfers in | 467,218 | 487,218 | 467,218 | - | 467,218 | (20,000) |
| Transfers out | - | - | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>467,218</u> | <u>487,218</u> | <u>467,218</u> | <u>-</u> | <u>467,218</u> | <u>(20,000)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE | | | | | | |
| | <u>14,105</u> | <u>(139,885)</u> | <u>\$ 672,209</u> | <u>-</u> | <u>\$ 516,097</u> | <u>\$ 655,982</u> |
| Other Budgetary Items: | | | | | | |
| Prior year encumbrances | 64,873 | 64,873 | | | | |
| Prior year appropriation deficit | (73,889) | (73,889) | | | | |
| Overlay deficit raised on tax recap | (5,098) | (5,098) | | | | |
| Free cash transfers | - | 154,000 | | | | |
| Other budgetary items | 9 | (1) | | | | |
| Total Other Budgetary Items | <u>(14,105)</u> | <u>139,885</u> | | | | |
| Net Budget | <u>\$ -</u> | <u>\$ -</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, 2014**

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 2014, Town Meeting approved \$154,000 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, 2014 is as follows:

| | <u>Accounting Differences</u> | <u>Fund Perspective Differences</u> | <u>Total</u> |
|----------------------------------------|-----------------------------------|-----------------------------------------|----------------------|
| Revenue on a budgetary basis | | | \$ 20,419,650 |
| On-behalf pension subsidy | \$ 78,951 | \$ - | 78,951 |
| Interest earned by stabilization funds | - | 2,078 | 2,078 |
| Revenue on a GAAP basis | <u>\$ 78,951</u> | <u>\$ 2,078</u> | <u>\$ 20,500,679</u> |
| | | | |
| Expenditures on a budgetary basis | | | \$ 20,295,688 |
| On-behalf pension payments | \$ 78,951 | \$ - | 78,951 |
| Expenditures on a GAAP basis | <u>\$ 78,951</u> | <u>\$ -</u> | <u>\$ 20,374,639</u> |
| | | | |
| Transfers on a budgetary basis (net) | | | \$ 467,218 |
| Stabilization transfers | - | - | - |
| Transfers on a GAAP basis (net) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 467,218</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 2015.