

TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Douglas, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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 Douglas, Massachusetts 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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 of Douglas, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient 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 21, 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 Town of Douglas, Massachusetts' internal control over financial reporting and compliance.

Melanson Heath

November 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, we offer readers this narrative overview and analysis of the financial activities of the Town of Douglas for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all 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 is improving or deteriorating.

The Statement of Activities presents information showing how the Town'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 that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water/sewer, and transfer station activities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water/sewer and transfer station operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/sewer and transfer station operations, both of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$65,106,158 (i.e., net position), a change of \$9,949,331 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,580,184, a change of \$(5,484,056) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,403,619, a change of \$372,137 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$26,027,502, a change of \$(1,876,639) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,661	\$ 13,346	\$ 1,889	\$ 1,748	\$ 12,550	\$ 15,094
Capital assets	<u>80,201</u>	<u>65,562</u>	<u>9,593</u>	<u>9,867</u>	<u>89,794</u>	<u>75,429</u>
Total assets	90,862	78,908	11,482	11,615	102,344	90,523
Long-term liabilities outstanding	26,387	26,672	4,114	4,471	30,501	31,143
Other liabilities	<u>6,256</u>	<u>3,688</u>	<u>481</u>	<u>535</u>	<u>6,737</u>	<u>4,223</u>
Total liabilities	32,643	30,360	4,595	5,006	37,238	35,366
Net position:						
Net investment in capital assets	57,817	48,010	5,233	5,073	63,050	53,083
Restricted	1,713	1,447	-	-	1,713	1,447
Unrestricted	<u>(1,311)</u>	<u>(909)</u>	<u>1,654</u>	<u>1,536</u>	<u>343</u>	<u>627</u>
Total net position	<u>\$ 58,219</u>	<u>\$ 48,548</u>	<u>\$ 6,887</u>	<u>\$ 6,609</u>	<u>\$ 65,106</u>	<u>\$ 55,157</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 850	\$ 834	\$ 1,408	\$ 1,377	\$ 2,258	\$ 2,211
Operating grants and contributions	12,061	11,918	-	-	12,061	11,918
Capital grants and contributions	8,917	16,200	-	-	8,917	16,200
General revenues:						
Property taxes	14,070	13,545	-	-	14,070	13,545
Excises	1,095	1,040	-	-	1,095	1,040
Penalties and interest on taxes	139	175	-	-	139	175
Grants and contributions not restricted to specific programs	990	944	-	-	990	944
Investment income	41	35	4	5	45	40
Other	<u>721</u>	<u>265</u>	<u>6</u>	<u>7</u>	<u>727</u>	<u>272</u>
Total revenues	<u>38,884</u>	<u>44,956</u>	<u>1,418</u>	<u>1,389</u>	<u>40,302</u>	<u>46,345</u>
Expenses:						
General government	1,692	1,609	-	-	1,692	1,609
Public safety	2,527	2,557	-	-	2,527	2,557
Education	18,109	17,519	-	-	18,109	17,519
Public works	1,246	1,027	-	-	1,246	1,027
Human services	276	317	-	-	276	317
Culture and recreation	272	265	-	-	272	265
Employee benefits	3,514	4,059	-	-	3,514	4,059
Intergovernmental	354	284	-	-	354	284
Interest on long-term debt	883	935	-	-	883	935
Miscellaneous	-	1	-	-	-	1
Water/sewer operations	-	-	1,234	1,191	1,234	1,191
Transfer station	-	-	<u>214</u>	<u>217</u>	<u>214</u>	<u>217</u>
Total expenses	<u>28,873</u>	<u>28,573</u>	<u>1,448</u>	<u>1,408</u>	<u>30,321</u>	<u>29,981</u>
Change in net position before transfers	10,011	16,383	(30)	(19)	9,981	16,364
Transfers in (out)	<u>(340)</u>	<u>(308)</u>	<u>308</u>	<u>308</u>	<u>(32)</u>	<u>-</u>
Change in net position	9,671	16,075	278	289	9,949	16,364
Net position - beginning of year	<u>48,548</u>	<u>32,473</u>	<u>6,609</u>	<u>6,320</u>	<u>55,157</u>	<u>38,793</u>
Net position - end of year	<u>\$ 58,219</u>	<u>\$ 48,548</u>	<u>\$ 6,887</u>	<u>\$ 6,609</u>	<u>\$ 65,106</u>	<u>\$ 55,157</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$65,106,158, a change of \$9,949,331 from the prior year.

The largest portion of net position \$63,050,347 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net position, \$1,713,130, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$342,681 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$9,671,133. Key elements of this change are as follows:

General fund operating results	\$ 520,226
School capital project fund - accrual basis	8,934,116
Nonmajor funds - accrual basis	694,181
Excess principal maturities, over depreciation a non budgeted expense	63,822
Other post employment benefits liability	(931,908)
Other GAAP accruals	<u>390,696</u>
Total	<u>\$ 9,671,133</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$278,198. Key elements of this change are as follows:

Water/sewer operations	\$ 227,663
Transfer station operations	<u>50,535</u>
Total	<u>\$ 278,198</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,580,184, a change of \$(5,484,056) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 520,226
School capital project fund operating results	(6,220,351)
Nonmajor funds operating results	<u>216,069</u>
Total	<u>\$ (5,484,056)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,403,619, while total fund balance was \$3,579,453. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,403,619	\$ 2,031,482	\$ 372,137	9.2%
Total fund balance	\$ 3,579,453	\$ 3,059,227	\$ 520,226	13.7%

The total fund balance of the general fund changed by \$520,226 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 338,702
Budgetary appropriation surplus	395,005
Shortfall of tax collections over budget	230,333
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	73,970
Use of free cash	(528,677)
Reserve for reduction of excluded debt	(23,784)
Change in stabilization balance	<u>34,677</u>
Total	<u>\$ 520,226</u>

Included in the total general fund balance is the Town's stabilization account with the following balances:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 1,252,994	\$ 1,218,317	\$ 34,677

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,653,694, a change of \$117,448 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There was no overall change in the total appropriation, however there were certain reclassifications as a result of reserve fund transfers and special town meeting transfers. Major reasons for these amendments include:

- \$(39,846) – Various General Government lines
- \$14,000 – Public Safety Police/Fire/Ambulance
- \$37,000 – Municipal Building Expenses
- \$6,412 – Highway/Cemetery
- \$200,000 – Snow/Ice
- \$(225,000) – Health Insurance Expenses
- \$7,434 – Debt – Short Term

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$89,793,650 (net of accumulated depreciation), a change of \$14,364,798 from the prior year. This investment in capital assets includes land, buildings and system improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- \$6,208,658 of construction in progress on the elementary school
- \$8,869,986 of construction in progress on the middle school

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$26,027,502, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Douglas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Town Accountant
Town of Douglas
29 Depot Street
Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 7,541,365	\$ 1,788,621	\$ 9,329,986
Investments	1,337,350	-	1,337,350
Receivables, net of allowance for uncollectibles:			
Property taxes	423,985	-	423,985
Excises	69,816	-	69,816
Other assets	-	13,718	13,718
User fees	-	86,451	86,451
Departmental and other	248,482	-	248,482
Intergovernmental	485,692	-	485,692
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	554,311	-	554,311
Capital assets:			
Land and construction in progress	50,493,989	401,122	50,895,111
Other capital assets, net of accumulated depreciation	<u>29,706,887</u>	<u>9,191,652</u>	<u>38,898,539</u>
TOTAL ASSETS	90,861,877	11,481,564	102,343,441
LIABILITIES			
Current:			
Warrants payable	1,267,164	62,662	1,329,826
Accrued liabilities	1,485,157	35,697	1,520,854
Tax refunds payable	83,900	-	83,900
Notes payable	2,000,000	-	2,000,000
Other current liabilities	185,110	-	185,110
Current portion of long-term liabilities:			
Bonds payable	1,192,979	381,600	1,574,579
Landfill	12,200	-	12,200
Compensated absence	5,555	129	5,684
Bond premium	23,784	-	23,784
Noncurrent:			
Bonds payable, net of current portion	20,475,000	3,977,923	24,452,923
Landfill, net of current portion	73,200	-	73,200
Compensated absence, net of current portion	105,543	2,452	107,995
Bond premium	404,335	-	404,335
Accrued other post employment benefits	<u>5,328,736</u>	<u>134,157</u>	<u>5,462,893</u>
TOTAL LIABILITIES	32,642,663	4,594,620	37,237,283
NET POSITION			
Net investment in capital assets	57,817,097	5,233,250	63,050,347
Restricted for:			
Grants and other statutory restrictions	1,607,438	-	1,607,438
Permanent funds:			
Nonexpendable	27,502	-	27,502
Expendable	78,190	-	78,190
Unrestricted	<u>(1,311,013)</u>	<u>1,653,694</u>	<u>342,681</u>
TOTAL NET POSITION	\$ <u>58,219,214</u>	\$ <u>6,886,944</u>	\$ <u>65,106,158</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	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
Governmental Activities:							
General government	\$ 1,691,617	\$ 90,362	\$ 864,860	\$ -	\$ (736,395)	\$ -	\$ (736,395)
Public safety	2,526,559	364,696	124,658	-	(2,037,205)	-	(2,037,205)
Education	18,109,078	367,861	11,004,659	8,498,661	1,762,103	-	1,762,103
Public works	1,246,108	17,360	36,434	417,989	(774,325)	-	(774,325)
Health and human services	275,527	9,772	8,648	-	(257,107)	-	(257,107)
Culture and recreation	272,007	-	22,072	-	(249,935)	-	(249,935)
Employee benefits	3,514,003	-	-	-	(3,514,003)	-	(3,514,003)
Interest	883,430	-	-	-	(883,430)	-	(883,430)
Intergovernmental	354,087	-	-	-	(354,087)	-	(354,087)
Total Governmental Activities	28,872,416	850,051	12,061,331	8,916,650	(7,044,384)	-	(7,044,384)
Business-Type Activities:							
Water/sewer services	1,234,000	1,150,472	-	-	-	(83,528)	(83,528)
Transfer station services	213,534	257,752	-	-	-	44,218	44,218
Total Business-Type Activities	1,447,534	1,408,224	-	-	-	(39,310)	(39,310)
Total	\$ 30,319,950	\$ 2,258,275	\$ 12,061,331	\$ 8,916,650	(7,044,384)	(39,310)	(7,083,694)
General Revenues and Transfers:							
Property taxes					14,070,315	-	14,070,315
Excises					1,094,835	-	1,094,835
Penalties, interest and other taxes					138,720	-	138,720
Grants and contributions not restricted to specific programs					990,419	-	990,419
Investment income					41,084	4,015	45,099
Miscellaneous					720,032	5,605	725,637
Transfers, net					(339,888)	307,888	(32,000)
Total general revenues and transfers					16,715,517	317,508	17,033,025
Change in Net Position					9,671,133	278,198	9,949,331
Net Position:							
Beginning of year					48,548,081	6,608,746	55,156,827
End of year					\$ 58,219,214	\$ 6,886,944	\$ 65,106,158

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

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Capital Project School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 3,900,735	\$ 1,843,596	\$ 1,797,034	\$ 7,541,365
Investments	1,252,994	-	84,356	1,337,350
Receivables:				
Property taxes	1,070,648	-	-	1,070,648
Excises	99,895	-	-	99,895
Departmental and other	27,787	-	373,955	401,742
Intergovernmental	77,310	-	408,381	485,691
Other assets	-	-	77,682	77,682
TOTAL ASSETS	<u>\$ 6,429,369</u>	<u>\$ 1,843,596</u>	<u>\$ 2,741,408</u>	<u>\$ 11,014,373</u>
LIABILITIES				
Warrants payable	\$ 321,634	\$ 767,404	\$ 178,126	\$ 1,267,164
Accrued liabilities	1,149,689	-	-	1,149,689
Tax refunds payable	83,900	-	-	83,900
Notes payable	-	2,000,000	-	2,000,000
Other liabilities	185,110	-	-	185,110
TOTAL LIABILITIES	1,740,333	2,767,404	178,126	4,685,863
DEFERRED INFLOWS OF RESOURCES	1,109,583	-	638,743	1,748,326
FUND BALANCES				
Nonspendable	-	-	27,502	27,502
Restricted	-	-	1,945,445	1,945,445
Committed	211,369	-	208,008	419,377
Assigned	964,465	-	-	964,465
Unassigned	2,403,619	(923,808)	(256,416)	1,223,395
TOTAL FUND BALANCES	<u>3,579,453</u>	<u>(923,808)</u>	<u>1,924,539</u>	<u>4,580,184</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 6,429,369</u>	<u>\$ 1,843,596</u>	<u>\$ 2,741,408</u>	<u>\$ 11,014,373</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 4,580,184
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	80,200,876
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,394,956
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(335,470)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(27,621,332)</u>
Net position of governmental activities	<u><u>\$ 58,219,214</u></u>

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

TOWN OF DOUGLAS, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Capital Project School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 14,039,139	\$ -	\$ -	\$ 14,039,139
Excises	1,121,885	-	2,719	1,124,604
Penalties, interest and other taxes	138,720	-	-	138,720
Charges for services	110,469	-	619,992	730,461
Intergovernmental	10,836,779	8,498,661	2,409,011	21,744,451
Licenses and permits	111,999	-	-	111,999
Fines and forfeitures	29,993	-	602	30,595
Investment income	39,641	-	1,443	41,084
Miscellaneous	<u>129,128</u>	<u>87,874</u>	<u>523,003</u>	<u>740,005</u>
Total Revenues	26,557,753	8,586,535	3,556,770	38,701,058
Expenditures:				
Current:				
General government	1,541,745	-	-	1,541,745
Public safety	2,403,433	-	23,541	2,426,974
Education	14,821,049	15,078,644	90,592	29,990,285
Public works	899,513	-	2,003,404	2,902,917
Health and human services	224,775	-	478,112	702,887
Culture and recreation	209,275	-	50,510	259,785
Employee benefits	3,238,730	-	53,484	3,292,214
Miscellaneous	-	-	8,712	8,712
Debt service	2,365,620	-	-	2,365,620
Intergovernmental	<u>354,087</u>	<u>-</u>	<u>-</u>	<u>354,087</u>
Total Expenditures	<u>26,058,227</u>	<u>15,078,644</u>	<u>2,708,355</u>	<u>43,845,226</u>
Excess (deficiency) of revenues over expenditures	499,526	(6,492,109)	848,415	(5,144,168)
Other Financing Sources (Uses):				
Transfers in	380,588	271,758	-	652,346
Transfers out	<u>(359,888)</u>	<u>-</u>	<u>(632,346)</u>	<u>(992,234)</u>
Total Other Financing Sources (Uses)	<u>20,700</u>	<u>271,758</u>	<u>(632,346)</u>	<u>(339,888)</u>
Change in fund balance	520,226	(6,220,351)	216,069	(5,484,056)
Fund Equity, at Beginning of Year	<u>3,059,227</u>	<u>5,296,543</u>	<u>1,708,470</u>	<u>10,064,240</u>
Fund Equity, at End of Year	<u>\$ 3,579,453</u>	<u>\$ (923,808)</u>	<u>\$ 1,924,539</u>	<u>\$ 4,580,184</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds	\$ (5,484,056)				
<ul style="list-style-type: none"> 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: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases</td> <td style="text-align: right;">16,016,864</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(1,377,783)</td> </tr> </table> 		Capital outlay purchases	16,016,864	Depreciation	(1,377,783)
Capital outlay purchases	16,016,864				
Depreciation	(1,377,783)				
<ul style="list-style-type: none"> 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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td></td> <td style="text-align: right;">(33,616)</td> </tr> </table> 			(33,616)		
	(33,616)				
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">1,441,605</td> </tr> </table> 		Repayments of debt	1,441,605		
Repayments of debt	1,441,605				
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td> <td style="text-align: right;">16,801</td> </tr> </table> 			16,801		
	16,801				
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td></td> <td style="text-align: right;"><u>(908,682)</u></td> </tr> </table> 			<u>(908,682)</u>		
	<u>(908,682)</u>				
Change in net position of governmental activities	\$ <u>9,671,133</u>				

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

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 13,808,806	\$ 13,808,806	\$ 13,808,806	\$ -
Excise	936,400	936,400	1,121,885	185,485
Penalties, interest and other taxes	120,000	120,000	138,720	18,720
Charges for services	96,585	96,585	110,469	13,884
Intergovernmental	9,450,689	9,450,689	9,440,620	(10,069)
Licenses and permits	110,600	110,600	111,999	1,399
Fines and forfeits	20,000	20,000	29,993	9,993
Investment income	20,000	20,000	24,964	4,964
Miscellaneous	29,000	29,000	129,128	100,128
Transfers in	346,390	346,390	360,588	14,198
Use of free cash	528,677	528,677	528,677	-
Reserve for reduction of excluded debt	23,784	23,784	23,784	-
Total Revenues and Other Sources	<u>25,490,931</u>	<u>25,490,931</u>	<u>25,829,633</u>	<u>338,702</u>
Expenditures and Other Uses:				
General government	1,681,637	1,656,791	1,606,061	50,730
Public safety	2,436,945	2,444,945	2,400,493	44,452
Education	13,434,459	13,434,459	13,424,384	10,075
Public works	924,300	933,712	899,513	34,199
Health and human services	268,299	268,299	224,506	43,793
Culture and recreation	208,390	208,390	207,501	889
Debt service	2,673,510	2,680,944	2,673,508	7,436
Intergovernmental	291,722	291,722	354,087	(62,365)
Employee benefits	3,519,669	3,519,669	3,253,873	265,796
Transfers out	52,000	52,000	52,000	-
Total Expenditures and Other Uses	<u>25,490,931</u>	<u>25,490,931</u>	<u>25,095,926</u>	<u>395,005</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 733,707</u>	<u>\$ 733,707</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 1,482,264	\$ 306,357	\$ 1,788,621
Other assets	13,718	-	13,718
User fees, net of allowance for uncollectibles	<u>86,451</u>	<u>-</u>	<u>86,451</u>
Total current assets	1,582,433	306,357	1,888,790
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net of accumulated depreciation	<u>9,187,703</u>	<u>3,949</u>	<u>9,191,652</u>
Total noncurrent assets	<u>9,577,087</u>	<u>15,687</u>	<u>9,592,774</u>
TOTAL ASSETS	11,159,520	322,044	11,481,564
LIABILITIES			
Current:			
Warrants payable	46,170	16,492	62,662
Accrued liabilities	35,697	-	35,697
Current portion of long-term liabilities:			
Bonds payable	381,600	-	381,600
Compensated absences	<u>129</u>	<u>-</u>	<u>129</u>
Total current liabilities	463,596	16,492	480,088
Noncurrent:			
Bonds payable, net of current portion	3,977,923	-	3,977,923
Compensated absences	2,452	-	2,452
Accrued other post employment benefits	<u>134,157</u>	<u>-</u>	<u>134,157</u>
Total noncurrent liabilities	<u>4,114,532</u>	<u>-</u>	<u>4,114,532</u>
TOTAL LIABILITIES	4,578,128	16,492	4,594,620
NET POSITION			
Net investment in capital assets	5,217,564	15,686	5,233,250
Unrestricted	<u>1,363,828</u>	<u>289,866</u>	<u>1,653,694</u>
TOTAL NET POSITION	<u>\$ 6,581,392</u>	<u>\$ 305,552</u>	<u>\$ 6,886,944</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 1,150,472	\$ 257,752	\$ 1,408,224
Other	-	5,605	5,605
Total Operating Revenues	1,150,472	263,357	1,413,829
Operating Expenses:			
Operating expenses	777,155	213,277	990,432
Depreciation	328,011	257	328,268
Total Operating Expenses	1,105,166	213,534	1,318,700
Operating Income (Loss)	45,306	49,823	95,129
Nonoperating Revenues (Expenses):			
Investment income	3,303	712	4,015
Interest expense	(128,834)	-	(128,834)
Total Nonoperating Revenues (Expenses), Net	(125,531)	712	(124,819)
Income (Loss) Before Transfers	(80,225)	50,535	(29,690)
Transfers:			
Transfers in	307,888	-	307,888
Change in Net Position	227,663	50,535	278,198
Net Position at Beginning of Year	6,353,729	255,017	6,608,746
Net Position at End of Year	\$ 6,581,392	\$ 305,552	\$ 6,886,944

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,133,852	\$ 263,358	\$ 1,397,210
Payments to vendors and employees	<u>(755,151)</u>	<u>(211,561)</u>	<u>(966,712)</u>
Net Cash Provided By Operating Activities	378,701	51,797	430,498
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	<u>307,888</u>	<u>-</u>	<u>307,888</u>
Net Cash Provided By Noncapital Financing Activities	307,888	-	307,888
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(53,984)	-	(53,984)
Principal payments on bonds and notes	(435,034)	-	(435,034)
Interest expense	<u>(128,834)</u>	<u>-</u>	<u>(128,834)</u>
Net Cash (Used For) Provided By Capital and Related Financing Activities	(617,852)	-	(617,852)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>3,303</u>	<u>712</u>	<u>4,015</u>
Net Cash Provided By Investing Activities	<u>3,303</u>	<u>712</u>	<u>4,015</u>
Net Change in Cash and Short-Term Investments	72,040	52,509	124,549
Cash and Short-Term Investments, Beginning of Year	<u>1,410,224</u>	<u>253,848</u>	<u>1,664,072</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,482,264</u>	<u>\$ 306,357</u>	<u>\$ 1,788,621</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ 45,306	\$ 49,823	\$ 95,129
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	328,011	257	328,268
Changes in assets and liabilities:			
User fees	(16,620)	-	(16,620)
Other assets	413	-	413
Warrants and accounts payable	(548)	1,717	1,169
Accrued liabilities	(970)	-	(970)
Accrued other post employment benefits	<u>23,109</u>	<u>-</u>	<u>23,109</u>
Net Cash Provided By Operating Activities	<u>\$ 378,701</u>	<u>\$ 51,797</u>	<u>\$ 430,498</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

	Private Purpose Trust <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 45,081	\$ -	\$ 243,174
Investments	53,464	33,702	-
Accounts receivable	-	-	7,541
	<hr/>	<hr/>	<hr/>
Total Assets	98,545	33,702	250,715
 <u>LIABILITIES AND NET POSITION</u>			
Accounts payable	-	-	15,410
Other liabilities	-	-	227,764
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES	-	-	7,541
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND DEFERRED INFLOWS	-	-	250,715
	<hr/>	<hr/>	<hr/>
 <u>NET POSITION</u>			
Total net position held in trust	\$ <u>98,545</u>	\$ <u>33,702</u>	\$ <u>-</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose <u>Trust Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>
Additions:		
Interest income	\$ 726	\$ 1,702
Transfers in	<u>-</u>	<u>32,000</u>
Total additions	726	33,702
Deductions:		
Education	<u>500</u>	<u>-</u>
Total deductions	<u>500</u>	<u>-</u>
Net increase	226	33,702
Net position:		
Beginning of year	<u>98,319</u>	<u>-</u>
End of year	<u>\$ 98,545</u>	<u>\$ 33,702</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (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*.

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *school construction capital project fund* accounts for the operations pertaining to the construction of the Douglas schools.

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 of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *other post-employment benefits trust fund* is used to account for assets that are dedicated to providing benefits to retirees. These funds reduce the unfunded actuarial liability of healthcare and other post-employment benefits. Contributions to this fund are irrevocable.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$6,849.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting,

establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 26,557,753	\$ 26,058,227
Other financing sources/uses (GAAP basis)	<u>380,588</u>	<u>359,888</u>
Subtotal (GAAP Basis)	26,938,341	26,418,115
Adjust tax revenue to accrual basis	(230,333)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(201,427)
To book current year appropriation carryforwards	-	275,397
To record use of free cash	528,677	-
Reserve for reduction of excluded debt	23,784	-
To remove unbudgeted stabilization fund	(34,677)	-
To reverse the effect of non-budgeted State contributions for teachers retirement	<u>(1,396,159)</u>	<u>(1,396,159)</u>
Budgetary basis	<u>\$ 25,829,633</u>	<u>\$ 25,095,926</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

State 911	\$ (21,080)
911 training	(9,026)
Tech rescue	(2,229)
Teacher quality	(3,796)
Race to the top	(6,620)
Title I	(27,339)
DEA task	(4,946)
Program improvement	(2,241)
Early childhood	(1,120)
Elementary and middle schools	(923,808)
Chapter 90	<u>(178,019)</u>
Total	<u>\$ (1,180,224)</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

As of June 30, 2014, none of the Town's bank balances of \$9,318,758 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
				<u>Aaa</u>	<u>Aa+</u>	<u>A-</u>	<u>BBB+</u>
Certificates of deposits	\$ 647		\$ -	\$ 647	\$ -	\$ -	\$ -
Corporate bonds	159		-	-	26	61	72
Corporate equities	18	N/A	18	-	-	-	-
Mutual funds	296	N/A	296	-	-	-	-
Federal agency securities	<u>305</u>		<u>-</u>	<u>195</u>	<u>110</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>1,425</u>		\$ <u>314</u>	\$ <u>842</u>	\$ <u>136</u>	\$ <u>61</u>	\$ <u>72</u>

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

State Bk India New York NY	\$	70,447	5%
State Bk India New York NY	\$	75,443	5%
State Bk India New York NY	\$	70,210	5%
Hewlett Packard Co	\$	72,259	5%
BMW Bk North America Utah	\$	70,233	5%
Goldman Sacs Bk USA NY	\$	75,154	5%
US Treas NTS	\$	195,282	14%

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>N/A</u>
Debt Related Securities:				
Certificates of deposit	\$ 647	\$ 647	\$ -	\$ -
Corporate bonds	159	159	-	-
Corporate equities	18	-	-	18
Mutual funds	296	-	-	296
Federal agency securities	305	305	-	-
Total	\$ <u>1,425</u>	\$ <u>1,111</u>	\$ <u>-</u>	\$ <u>314</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy is not to invest in foreign currency investments.

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2014 consist of the following (in thousands):

Real Estate		
2014	\$ 418	
2013	8	
2012	4	
Prior	<u>12</u>	
		442
Personal Property		
2014	1	
2013	1	
2012	-	
Prior	<u>10</u>	
		12
Tax Liens		<u>616</u>
Total		<u>\$ 1,070</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 92
Excises	\$ 30
Other	\$ 231

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

8. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 32,031	\$ -	\$ -	\$ 32,031
Machinery, equipment, and furnishings	6,443	191	-	6,634
Infrastructure	9,002	531	-	9,533
	<u>47,476</u>	<u>722</u>	<u>-</u>	<u>48,198</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(10,904)	(831)	-	(11,735)
Machinery, equipment, and furnishings	(5,436)	(237)	-	(5,673)
Infrastructure	(774)	(309)	-	(1,083)
	<u>(17,114)</u>	<u>(1,377)</u>	<u>-</u>	<u>(18,491)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	30,362	(655)	-	29,707
Capital assets, not being depreciated:				
Land	5,837	216	-	6,053
Construction in progress	29,363	15,078	-	44,441
	<u>35,200</u>	<u>15,294</u>	<u>-</u>	<u>50,494</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 65,562</u>	<u>\$ 14,639</u>	<u>\$ -</u>	<u>\$ 80,201</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,057	\$ -	\$ -	\$ 8,057
Machinery, equipment, and furnishings	65	19	-	84
Infrastructure	<u>5,524</u>	<u>35</u>	<u>-</u>	<u>5,559</u>
Total capital assets, being depreciated	13,646	54	-	13,700
Less accumulated depreciation for:				
Buildings and improvements	(1,506)	(190)	-	(1,696)
Machinery, equipment, and furnishings	(53)	(7)	-	(60)
Infrastructure	<u>(2,621)</u>	<u>(131)</u>	<u>-</u>	<u>(2,752)</u>
Total accumulated depreciation	<u>(4,180)</u>	<u>(328)</u>	<u>-</u>	<u>(4,508)</u>
Total capital assets, being depreciated, net	9,466	(274)	-	9,192
Capital assets, not being depreciated:				
Land	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Total capital assets, not being depreciated	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Business-type activities capital assets, net	<u>\$ 9,867</u>	<u>\$ (274)</u>	<u>\$ -</u>	<u>\$ 9,593</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 36
Public safety	173
Education	802
Public works	356
Culture and recreation	<u>10</u>
Total depreciation expense - governmental activities	<u>\$ 1,377</u>
Business-Type Activities:	
Water/sewer	<u>\$ 328</u>
Total depreciation expense - business-type activities	<u>\$ 328</u>

9. Warrants Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014.

10. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
Land	07/15/18	4.10%	\$ 75,000
Land	12/15/21	4.36%	400,000
Post office	12/15/14	5.25%	27,979
Elementary and middle school	11/15/32	3.93%	18,110,000
Refunding	06/01/22	1.59%	<u>3,055,000</u>
Total Governmental Activities:			<u>\$ 21,667,979</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
Water tank refunding	01/15/17	1.78%	\$ 130,000
Water refunding	01/15/21	2.13%	65,000
Water refunding	01/15/20	2.41%	30,000
Manchaug sewer improvement	01/15/19	2.13%	50,000
Sewer plant	02/01/25	2.00%	3,889,094
Sewer plant	07/15/24	2.00%	<u>195,429</u>
Total Business-Type Activities:			<u>\$ 4,359,523</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,192,979	\$ 877,908	\$ 2,070,887
2016	1,195,000	832,789	2,027,789
2017	1,230,000	780,389	2,010,389
2018	1,255,000	730,129	1,985,129
2019	1,290,000	687,148	1,977,148
2020 - 2024	5,980,000	2,658,475	8,638,475
2025 - 2029	5,560,000	1,612,925	7,172,925
2030 - 2032	<u>3,965,000</u>	<u>362,475</u>	<u>4,327,475</u>
Total	\$ <u>21,667,979</u>	\$ <u>8,542,238</u>	\$ <u>30,210,217</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 381,600	\$ 116,628	\$ 498,228
2016	390,529	101,577	492,106
2017	389,428	81,361	470,789
2018	367,617	65,467	433,084
2019	380,814	51,633	432,447
2020 - 2024	2,014,394	82,474	2,096,868
2025 - 2027	<u>435,141</u>	<u>196</u>	<u>435,337</u>
Total	\$ <u>4,359,523</u>	\$ <u>499,336</u>	\$ <u>4,858,859</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 23,110	\$ -	\$ (1,442)	\$ 21,668	\$ (1,193)	\$ 20,475
Other:						
Landfill closure	98	-	(13)	85	(12)	73
Compensated absences	98	13	-	111	(5)	106
Bond premium	452	-	(24)	428	(24)	404
Accrued other post-employment benefits	<u>4,397</u>	<u>932</u>	<u>-</u>	<u>5,329</u>	<u>-</u>	<u>5,329</u>
Totals	\$ <u>28,155</u>	\$ <u>945</u>	\$ <u>(1,479)</u>	\$ <u>27,621</u>	\$ <u>(1,234)</u>	\$ <u>26,387</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,795	\$ -	\$ (435)	\$ 4,360	\$ (382)	\$ 3,978
Compensated absences	-	2	-	2	-	2
Accrued other post-employment benefits	<u>111</u>	<u>23</u>	<u>-</u>	<u>134</u>	<u>-</u>	<u>134</u>
Totals	\$ <u>4,906</u>	\$ <u>25</u>	\$ <u>(435)</u>	\$ <u>4,496</u>	\$ <u>(382)</u>	\$ <u>4,114</u>

D. Current Refunding and Cash Defeasance

On June 28, 2012, the Town deposited \$2,951,279 of available funds, received from the Massachusetts School Building Authority, in a refunding escrow, in accordance with a Refunding Escrow Agreement between the Town and U.S. Bank National Association dated June 28, 2012, for the purpose of cash defeasing \$2,760,000 outstanding principal amount of the Town's \$4,850,000 General Obligation Bonds, dated May 1, 2004, and maturing in the years 2012 through 2023, with fixed interest rates ranging from 3.75 percent to 4.625 percent.

Funds from the escrow were used to pay \$195,000 of principal payable on July 15, 2013 and to redeem the remaining aggregate principal amount of \$2,375,000 on July 15, 2013, as well as accrued interest on July 15, 2013.

There is no remaining defeased principal as of June 30, 2014. In addition, as of June 30, 2014, \$75,000 remaining outstanding principal of the 2004 bonds was not cash defeased; and the Town will continue to pay debt service thereon from revenue funds of the Town.

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town reported \$85,400 as landfill closure and postclosure care liability at June 30, 2014. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	<u>General Fund</u>	<u>Nonmajor</u>
Unearned revenue	\$ 1,109,583	\$ 638,744

14. **Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2014:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

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

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

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various

Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Capital Project School Construction	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 27,502	\$ 27,502
Total Nonspendable	-	-	27,502	27,502
Restricted				
Special revenue funds	-	-	1,863,852	1,863,852
Expendable permanent funds	-	-	81,593	81,593
Total Restricted	-	-	1,945,445	1,945,445
Committed				
Reserve for continuing appropriations				
General government	115,820	-	-	115,820
Public safety	34,060	-	-	34,060
Culture and recreation	4,900	-	-	4,900
Employee benefits	56,589	-	-	56,589
Capital project funds	-	-	208,008	208,008
Total Committed	211,369	-	208,008	419,377
Assigned				
Encumbrances				
General government	52,693	-	-	52,693
Public safety	4,126	-	-	4,126
Education	7,166	-	-	7,166
Health and human services	42	-	-	42
Reserve for south street	14,152	-	-	14,152
Reserve for debt exclusion	404,335	-	-	404,335
Reserved for expenditures	481,951	-	-	481,951
Total Assigned	964,465	-	-	964,465
Unassigned				
General operating stabilization	1,252,994	-	-	1,252,994
General fund	1,150,625	(923,808)	(256,416)	(29,599)
Total Unassigned	2,403,619	(923,808)	(256,416)	1,223,395
Total Fund Balance	\$ 3,579,453	\$ (923,808)	\$ 1,924,539	\$ 4,580,184

16. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal

Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 2,403,619
Stabilization fund	(1,252,994)
Tax refund estimate	<u>83,900</u>
Statutory (UMAS) Balance	<u>\$ 1,234,525</u>

17. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

18. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2012, the actuarial valuation date, approximately 86 retirees and 247 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2012.

Annual Required Contribution (ARC)	\$ 1,274,409
Interest on net OPEB obligation	180,315
Adjustment to ARC	(156,027)
Amortization of actuarial (gains)/losses	<u>-</u>
Annual OPEB cost	1,298,697
Contributions made	<u>(343,680)</u>
Increase in net OPEB obligation	955,017
Net OPEB obligation - beginning of year	<u>4,507,876</u>
Net OPEB obligation - end of year	<u>\$ 5,462,893</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,298,697	27%	\$ 5,462,893
2013	\$ 1,234,113	25%	\$ 4,507,876
2012	\$ 1,184,890	30%	\$ 3,579,633

The Town's net OPEB obligation as of June 30, 2014 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 11,261,317
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 11,261,317</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 13,503,832</u>
UAAL as a percentage of covered payroll	<u>83%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members

to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 6%, which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

19. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501.

A. Plan Description

The Town contributes to the Worcester Regional Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501.

B. 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 System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers. The contributions of plan members and the Town are

governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$709,867, \$737,944, and \$724,649, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

As required by state statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
July 1, 1996 - June 30, 2001	9%
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$1,396,159 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

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. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

21. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Worcester Regional Retirement System's actuarially accrued liability.

**TOWN OF DOUGLAS, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2014

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2008	\$ -	\$ 11,385,000	\$ 11,385,000	0%	\$ 17,172,000	66%
7/1/2010	-	10,786,564	10,786,564	0%	13,965,267	77%
7/1/2012	-	11,261,317	11,261,317	0%	13,503,832	83%

**WORCESTER REGIONAL RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

**Employees' Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%
01/01/10	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%

**Employees' Retirement System
Schedule of Employer Contributions**

Plan Year End	System Wide			Town of Douglas	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contribution: as a % of Actual Contribution:
12/31/12	\$ 35,056,320	\$ 35,056,320	100%	\$ 724,649	2.1%
12/31/11	\$ 33,072,000	\$ 33,072,000	100%	\$ 644,320	1.9%
12/31/10	\$ 31,199,999	\$ 31,199,999	100%	\$ 650,632	2.1%

See Independent Auditors' Report.