

TOWN OF MEDWAY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Medway, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Medway, 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 Medway, 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 Medway, 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 25, 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 financial reporting and compliance.

Melanson Heath

November 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Medway, we offer readers this narrative overview and analysis of the financial activities of the Town of Medway 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, ambulance service, sewer, and solid waste collection 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, ambulance, sewer, and solid waste collection 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, ambulance, sewer and solid waste funds, 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 infor-

mation 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 \$116,111,872 (i.e., net position), a change of \$(1,017,991) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$20,416,589, a change of \$(1,679,001) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,737,697, a change of \$135,853 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$37,577,565, a change of \$(3,494,541) 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	\$ 27,348	\$ 28,715	\$ 7,478	\$ 5,724	\$ 34,826	\$ 34,439
Capital assets	<u>111,072</u>	<u>109,832</u>	<u>34,910</u>	<u>35,566</u>	<u>145,982</u>	<u>145,398</u>
Total assets	138,420	138,547	42,388	41,290	180,808	179,837
Long-term liabilities outstanding	44,525	44,203	8,591	9,144	53,116	53,347
Other liabilities	<u>8,199</u>	<u>7,863</u>	<u>3,382</u>	<u>1,497</u>	<u>11,581</u>	<u>9,360</u>
Total liabilities	52,724	52,066	11,973	10,641	64,697	62,707
Net position:						
Net investment in capital assets	82,972	82,005	26,119	26,336	109,091	108,341
Restricted	7,922	6,833	-	-	7,922	6,833
Unrestricted	<u>(5,198)</u>	<u>(2,357)</u>	<u>4,296</u>	<u>4,313</u>	<u>(902)</u>	<u>1,956</u>
Total net position	<u>\$ 85,696</u>	<u>\$ 86,481</u>	<u>\$ 30,415</u>	<u>\$ 30,649</u>	<u>\$ 116,111</u>	<u>\$ 117,130</u>

CHANGES IN NET ASSETS

	<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>
Revenues:						
Program revenues:						
Charges for services	\$ 2,768	\$ 2,515	\$ 5,126	\$ 5,934	\$ 7,894	\$ 8,449
Operating grants and contributions	19,230	18,298	-	-	19,230	18,298
Capital grants and contributions	523	5,945	-	-	523	5,945
General revenues:						
Property taxes	31,350	30,384	-	-	31,350	30,384
Excises	1,612	1,616	-	-	1,612	1,616
Penalties and interest on taxes	146	218	-	-	146	218
Grants and contributions not restricted to specific programs	1,143	1,120	-	-	1,143	1,120
Investment income	83	153	22	22	105	175
Other	155	207	5	6	160	213
Total revenues	<u>57,010</u>	<u>60,456</u>	<u>5,153</u>	<u>5,962</u>	<u>62,163</u>	<u>66,418</u>
Expenses:						
General government	3,203	2,729	-	-	3,203	2,729
Public safety	3,664	3,302	-	-	3,664	3,302
Education	39,238	37,723	-	-	39,238	37,723
Public works	2,726	3,332	-	-	2,726	3,332
Human services	504	421	-	-	504	421
Culture and recreation	1,005	1,065	-	-	1,005	1,065
Employee benefits	6,005	6,226	-	-	6,005	6,226
Interest on long-term debt	956	890	-	-	956	890
Intergovernmental	728	732	-	-	728	732
Water	-	-	1,963	1,616	1,963	1,616
Ambulance	-	-	670	197	670	197
Sewer operations	-	-	1,175	1,051	1,175	1,051
Solid waste	-	-	1,330	1,323	1,330	1,323
Total expenses	<u>58,029</u>	<u>56,420</u>	<u>5,138</u>	<u>4,187</u>	<u>63,167</u>	<u>60,607</u>
Change in net position before transfers	(1,019)	4,036	15	1,775	(1,004)	5,811
Transfers in (out)	<u>234</u>	<u>367</u>	<u>(249)</u>	<u>(377)</u>	<u>(15)</u>	<u>(10)</u>
Change in net position	(785)	4,403	(234)	1,398	(1,019)	5,801
Net position - beginning of year	<u>86,481</u>	<u>82,078</u>	<u>30,649</u>	<u>29,251</u>	<u>117,130</u>	<u>111,329</u>
Net position - end of year	<u>\$ 85,696</u>	<u>\$ 86,481</u>	<u>\$ 30,415</u>	<u>\$ 30,649</u>	<u>\$ 116,111</u>	<u>\$ 117,130</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 \$116,111,872, a change of \$(1,017,991) from the prior year.

The largest portion of net position \$109,091,281 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 \$7,921,877 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit balance of \$(901,286) caused primarily by unfunded post-employment benefits (see Note 18).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(784,048). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 285,727
Community preservation surplus - operating results	675,082
Nonmajor funds - accrual basis	900,669
Depreciation expense in excess of principal debt service	(528,406)
Other post employment benefits liability	(2,743,811)
Other GAAP accruals	<u>626,691</u>
Total	<u>\$ (784,048)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(233,943). Key elements of this change are as follows:

Water operations	\$ 78,673
Ambulance operations	(136,989)
Sewer operations	(95,834)
Solid waste operations	<u>(79,793)</u>
Total	<u>\$ (233,943)</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, 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$20,416,589, a change of \$(1,679,001) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 285,727
Community preservation	675,082
Nonmajor funds	<u>(2,639,810)</u>
Total	<u>\$ (1,679,001)</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 \$5,737,697 while total fund balance was \$11,819,251. 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	\$ 5,737,697	\$ 5,601,844	\$ 135,853	11.4%
Total fund balance	\$ 11,819,251	\$ 11,533,524	\$ 285,727	23.5%

The total fund balance of the general fund changed by \$285,727 during the current fiscal year. Key factors in this change are as follows:

Excess revenues over budget	\$ 774,445
Budgetary appropriation surplus	913,089
Surplus of tax collections over budget	347,521
Excess of current year encumbered appropriations to be spent in the subsequent year over prior year encumbrances spent in the current year	136,872
Change in stabilization/fiscal stability	(110,847)
Use of free cash	(1,791,439)
Other timing issue	<u>16,086</u>
Total	<u>\$ 285,727</u>

Included in the total general fund balance are the Town's stabilization and fiscal stability accounts with the following balances:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General trust stabilization	\$ 1,921,806	\$ 1,917,715	\$ 4,091
General operating stabilization	546,375	833,931	(287,556)
Stabilization storm reserve	211,646	210,903	743
Stabilization health insurance	52,515	52,331	184
Stabilization ESCO	173,341	225,584	(52,243)
Stabilization OPEB	100,601	50,489	50,112
Stabilization capital improvements	589,591	450,004	139,587
Fiscal stability	<u>784,545</u>	<u>750,310</u>	<u>34,235</u>
Total	\$ <u>4,380,420</u>	\$ <u>4,491,267</u>	\$ <u>(110,847)</u>

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 \$4,296,286, a change of \$(16,623) 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 were no differences between the original budget and final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$145,982,455 (net of accumulated depreciation), a change of \$584,479 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:

- \$2,344,961 – Thayer House renovation construction in progress

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 \$37,577,565, 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 Medway's 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 Town Accountant
Town of Medway, Massachusetts
155 Village Street
Medway, Massachusetts 02053

TOWN OF MEDWAY, 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	\$ 25,349,838	\$ 4,119,601	\$ 29,469,439
Receivables, net of allowance for uncollectibles:			
Property taxes	617,172	-	617,172
Excises	71,658	-	71,658
User fees	-	1,441,505	1,441,505
Departmental and other	51,840	-	51,840
Intergovernmental	165,135	1,917,102	2,082,237
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,092,498	-	1,092,498
Capital Assets:			
Land and construction in progress	45,369,099	1,038,043	46,407,142
Other capital assets, net of accumulated depreciation	<u>65,703,030</u>	<u>33,872,283</u>	<u>99,575,313</u>
TOTAL ASSETS	138,420,270	42,388,534	180,808,804
LIABILITIES			
Current:			
Warrants payable	604,334	121,628	725,962
Accrued liabilities	3,806,890	138,640	3,945,530
Notes payable	470,000	2,336,102	2,806,102
Tax refunds payable	244,227	-	244,227
Other current liabilities	399,372	5,408	404,780
Current portion of long-term liabilities:			
Bonds payable	2,570,494	775,100	3,345,594
Capital lease	24,917	-	24,917
Compensated absence	78,607	3,921	82,528
Noncurrent:			
Bonds payable, net of current portion	26,204,971	8,027,000	34,231,971
Capital lease, net of current portion	79,714	-	79,714
Compensated absence, net of current portion	707,466	35,296	742,762
Accrued other post-employment benefits	<u>17,532,849</u>	<u>529,996</u>	<u>18,062,845</u>
TOTAL LIABILITIES	52,723,841	11,973,091	64,696,932
NET POSITION			
Net investment in capital assets	82,972,124	26,119,157	109,091,281
Restricted for:			
Grants and other statutory restrictions	7,283,702	-	7,283,702
Permanent funds:			
Nonexpendable	110,869	-	110,869
Expendable	527,306	-	527,306
Unrestricted	<u>(5,197,572)</u>	<u>4,296,286</u>	<u>(901,286)</u>
TOTAL NET POSITION	\$ <u>85,696,429</u>	\$ <u>30,415,443</u>	\$ <u>116,111,872</u>

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

TOWN OF MEDWAY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	Total
	<u>Expenses</u>	<u>Services</u>	<u>Grants and Contributions</u>	<u>Grants and Contributions</u>	<u>Activities</u>	<u>Type Activities</u>	
Governmental Activities:							
General government	\$ 3,202,593	\$ 280,021	\$ 122,566	\$ -	\$ (2,800,006)	\$ -	\$ (2,800,006)
Public safety	3,664,265	304,415	141,147	-	(3,218,703)	-	(3,218,703)
Education	39,237,717	1,969,992	18,020,486	68,402	(19,178,837)	-	(19,178,837)
Public works	2,726,055	33,903	396,952	455,122	(1,840,078)	-	(1,840,078)
Health and human services	504,362	88,504	92,330	-	(323,528)	-	(323,528)
Culture and recreation	1,005,278	91,098	456,060	-	(458,120)	-	(458,120)
Employee benefits	6,004,513	-	-	-	(6,004,513)	-	(6,004,513)
Interest	956,143	-	-	-	(956,143)	-	(956,143)
Intergovernmental	727,510	-	-	-	(727,510)	-	(727,510)
Total Governmental Activities	58,028,436	2,767,933	19,229,541	523,524	(35,507,438)	-	(35,507,438)
Business-Type Activities:							
Water services	1,963,156	2,209,935	-	-	-	246,779	246,779
Ambulance	669,965	465,227	-	-	-	(204,738)	(204,738)
Sewer	1,174,731	1,104,992	-	-	-	(69,739)	(69,739)
Solid waste	1,330,279	1,346,246	-	-	-	15,967	15,967
Total Business-Type Activities	5,138,131	5,126,400	-	-	-	(11,731)	(11,731)
Total	\$ 63,166,567	\$ 7,894,333	\$ 19,229,541	\$ 523,524	(35,507,438)	(11,731)	(35,519,169)
General Revenues and Transfers:							
Property taxes					31,350,219	-	31,350,219
Excises					1,612,158	-	1,612,158
Penalties, interest and other taxes					145,701	-	145,701
Grants and contributions not restricted to specific programs					1,142,845	-	1,142,845
Investment income					83,440	21,508	104,948
Miscellaneous					155,196	5,011	160,207
Transfers, net					233,831	(248,731)	(14,900)
Total general revenues					34,723,390	(222,212)	34,501,178
Change in Net Position					(784,048)	(233,943)	(1,017,991)
Net Position:							
Beginning of year					86,480,477	30,649,386	117,129,863
End of year					\$ 85,696,429	\$ 30,415,443	\$ 116,111,872

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

TOWN OF MEDWAY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 15,997,090	\$ 5,008,728	\$ 4,344,020	\$ 25,349,838
Receivables:				
Property taxes	1,962,783	-	-	1,962,783
Excises	157,197	-	-	157,197
Departmental and other	2,360	16,256	34,549	53,165
Intergovernmental	24,000	-	141,135	165,135
TOTAL ASSETS	\$ 18,143,430	\$ 5,024,984	\$ 4,519,704	\$ 27,688,118
LIABILITIES				
Warrants payable	\$ 432,403	\$ 21,853	\$ 150,078	\$ 604,334
Accrued liabilities	3,473,229	-	135,244	3,608,473
Notes payable	-	-	470,000	470,000
Tax refunds payable	244,227	-	-	244,227
Other liabilities	280,002	-	119,370	399,372
TOTAL LIABILITIES	4,429,861	21,853	874,692	5,326,406
DEFERRED INFLOWS OF RESOURCES	1,894,318	16,256	34,549	1,945,123
FUND BALANCES				
Nonspendable	-	-	110,869	110,869
Restricted	-	4,986,875	3,852,559	8,839,434
Committed	3,115,264	-	-	3,115,264
Assigned	2,966,290	-	-	2,966,290
Unassigned	5,737,697	-	(352,965)	5,384,732
TOTAL FUND BALANCES	11,819,251	4,986,875	3,610,463	20,416,589
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 18,143,430	\$ 5,024,984	\$ 4,519,704	\$ 27,688,118

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

TOWN OF MEDWAY, 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	\$ 20,416,589
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	111,072,129
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,605,144
<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.	(198,415)
<ul style="list-style-type: none">• 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>(47,199,018)</u>
Net position of governmental activities	\$ <u><u>85,696,429</u></u>

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

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

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 30,638,133	\$ 603,665	\$ -	\$ 31,241,798
Excises	1,828,165	-	-	1,828,165
Penalties, interest and other taxes	145,701	-	-	145,701
Charges for services	-	-	2,220,221	2,220,221
Intergovernmental	17,049,929	415,467	3,235,925	20,701,321
Licenses and permits	497,342	-	-	497,342
Fines and forfeitures	25,249	-	-	25,249
Investment income	69,213	11,597	2,631	83,441
Miscellaneous	80,729	-	269,056	349,785
Total Revenues	50,334,461	1,030,729	5,727,833	57,093,023
Expenditures:				
Current:				
General government	2,836,748	-	276,074	3,112,822
Public safety	3,393,190	-	99,355	3,492,545
Education	30,806,503	-	4,519,798	35,326,301
Public works	2,117,810	-	783,154	2,900,964
Health and human services	351,753	-	154,024	505,777
Culture and recreation	760,893	121,197	2,554,436	3,436,526
Employee benefits	5,884,702	-	-	5,884,702
Debt service	3,403,816	204,450	10,442	3,618,708
Intergovernmental	727,510	-	-	727,510
Total Expenditures	50,282,925	325,647	8,397,283	59,005,855
Excess (deficiency) of revenues over expenditures	51,536	705,082	(2,669,450)	(1,912,832)
Other Financing Sources (Uses):				
Transfers in	464,001	-	30,000	494,001
Transfers out	(229,810)	(30,000)	(360)	(260,170)
Total Other Financing Sources (Uses)	234,191	(30,000)	29,640	233,831
Excess (deficiency) of revenues and other sources over expenditures and other uses	285,727	675,082	(2,639,810)	(1,679,001)
Fund Equity, at Beginning of Year, as restated	11,533,524	4,311,793	6,250,273	22,095,590
Fund Equity, at End of Year	\$ 11,819,251	\$ 4,986,875	\$ 3,610,463	\$ 20,416,589

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

TOWN OF MEDWAY, 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 **\$ (1,679,001)**

- 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:

Capital outlay purchases	4,459,874
Depreciation	(3,203,847)
Loss on disposition of assets	(15,913)

- 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. (82,468)

- 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:

Repayments of debt	2,675,441
Repayment of capital lease	28,317
Issuance of capital lease	(132,948)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (12,876)

- Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. (2,820,627)

Change in net position of governmental activities **\$ (784,048)**

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

TOWN OF MEDWAY, 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>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Taxes	\$ 30,290,612	\$ 30,290,612	\$ 30,290,612	\$ -
Excises	1,280,444	1,280,444	1,828,165	547,721
Penalties, interest and other taxes	177,800	177,800	145,701	(32,099)
Intergovernmental	11,242,744	11,242,744	11,285,104	42,360
Licenses and permits	331,200	331,200	497,342	166,142
Fines and forfeits	15,000	15,000	25,249	10,249
Investment income	60,000	60,000	58,883	(1,117)
Miscellaneous	40,000	40,000	80,729	40,729
Transfer in	668,953	668,953	669,413	460
Use of free cash	<u>1,791,439</u>	<u>1,791,439</u>	<u>1,791,439</u>	<u>-</u>
Total Revenues and Other Sources	45,898,192	45,898,192	46,672,637	774,445
Expenditures and Other Uses:				
General government	2,832,668	2,832,668	2,685,734	146,934
Public safety	3,375,848	3,375,848	3,364,659	11,189
Education	25,002,830	25,002,830	25,003,548	(718)
Public works	2,477,763	2,477,763	2,466,725	11,038
Health and human services	359,084	359,084	350,863	8,221
Culture and recreation	770,990	770,990	766,962	4,028
Debt service	3,610,534	3,610,534	3,448,972	161,562
Intergovernmental	702,156	702,156	727,510	(25,354)
Employee benefits	6,481,344	6,481,344	5,885,155	596,189
Transfers out	268,889	268,889	268,889	-
Tax title	10,000	10,000	10,000	-
Other uses	<u>6,086</u>	<u>6,086</u>	<u>6,086</u>	<u>-</u>
Total Expenditures and Other Uses	<u>45,898,192</u>	<u>45,898,192</u>	<u>44,985,103</u>	<u>913,089</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,687,534</u>	<u>\$ 1,687,534</u>

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

TOWN OF MEDWAY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Fund				
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	Total
ASSETS					
Current:					
Cash and short-term investments	\$ 1,696,894	\$ 288,685	\$ 1,050,522	\$ 1,083,500	\$ 4,119,601
User fees, net of allowance for uncollectibles	281,336	79,084	849,298	231,787	1,441,505
Intergovernmental	1,917,102	-	-	-	1,917,102
Total current assets	3,895,332	367,769	1,899,820	1,315,287	7,478,208
Noncurrent:					
Capital assets					
Land and construction in progress	830,913	-	207,130	-	1,038,043
Other capital assets, net of accumulated depreciation	21,011,770	232,185	12,628,328	-	33,872,283
Total noncurrent assets	21,842,683	232,185	12,835,458	-	34,910,326
TOTAL ASSETS	25,738,015	599,954	14,735,278	1,315,287	42,388,534
LIABILITIES					
Current:					
Warrants payable	39,290	35,721	28,439	18,178	121,628
Accrued liabilities	83,363	15,386	26,165	13,726	138,640
Notes payable	2,261,102	-	75,000	-	2,336,102
Other liabilities	-	-	5,408	-	5,408
Current portion of long-term liabilities:					
Bonds payable	560,000	30,000	185,100	-	775,100
Compensated absences	3,035	466	-	420	3,921
Total current liabilities	2,946,790	81,573	320,112	32,324	3,380,799
Noncurrent:					
Bonds payable, net of current portion	5,745,000	120,000	2,162,000	-	8,027,000
Compensated absences, net of current portion	27,318	4,198	-	3,780	35,296
Accrued other post-employment benefits	188,559	108,390	89,527	143,520	529,996
Total noncurrent liabilities	5,960,877	232,588	2,251,527	147,300	8,592,292
TOTAL LIABILITIES	8,907,667	314,161	2,571,639	179,624	11,973,091
NET POSITION					
Net investment in capital assets	15,439,521	82,185	10,597,451	-	26,119,157
Unrestricted	1,390,827	203,608	1,566,188	1,135,663	4,296,286
TOTAL NET POSITION	<u>\$ 16,830,348</u>	<u>\$ 285,793</u>	<u>\$ 12,163,639</u>	<u>\$ 1,135,663</u>	<u>\$ 30,415,443</u>

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

TOWN OF MEDWAY, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Fund				
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	Total
Operating Revenues:					
Charges for services	\$ 2,209,935	\$ 465,227	\$ 1,104,992	\$ 1,346,246	\$ 5,126,400
Other	<u>4,227</u>	<u>-</u>	<u>-</u>	<u>784</u>	<u>5,011</u>
Total Operating Revenues	2,214,162	465,227	1,104,992	1,347,030	5,131,411
Operating Expenses:					
Operating expenses	1,021,049	632,193	737,864	1,330,279	3,721,385
Depreciation	<u>723,357</u>	<u>32,072</u>	<u>351,525</u>	<u>-</u>	<u>1,106,954</u>
Total Operating Expenses	<u>1,744,406</u>	<u>664,265</u>	<u>1,089,389</u>	<u>1,330,279</u>	<u>4,828,339</u>
Operating Income (Loss)	469,756	(199,038)	15,603	16,751	303,072
Nonoperating Revenues (Expenses):					
Investment income	20,867	-	641	-	21,508
Interest expense	<u>(218,750)</u>	<u>(5,700)</u>	<u>(85,342)</u>	<u>-</u>	<u>(309,792)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(197,883)</u>	<u>(5,700)</u>	<u>(84,701)</u>	<u>-</u>	<u>(288,284)</u>
Income (Loss) Before Transfers	271,873	(204,738)	(69,098)	16,751	14,788
Transfers:					
Transfers in	-	169,654	365,952	-	535,606
Transfers out	<u>(193,200)</u>	<u>(101,905)</u>	<u>(392,688)</u>	<u>(96,544)</u>	<u>(784,337)</u>
Change in Net Position	78,673	(136,989)	(95,834)	(79,793)	(233,943)
Net Position at Beginning of Year	<u>16,751,675</u>	<u>422,782</u>	<u>12,259,473</u>	<u>1,215,456</u>	<u>30,649,386</u>
Net Position at End of Year	<u>\$ 16,830,348</u>	<u>\$ 285,793</u>	<u>\$ 12,163,639</u>	<u>\$ 1,135,663</u>	<u>\$ 30,415,443</u>

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

TOWN OF MEDWAY, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds				
	Water Fund	Ambulance Fund	Sewer Fund	Solid Waste Fund	Total
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 825,829	\$ 465,186	\$ 1,198,683	\$ 1,356,921	\$ 3,846,619
Payments to vendors and employees	(1,030,963)	(497,226)	(612,866)	(1,264,724)	(3,405,779)
Net Cash Provided By (Used For) Operating Activities	(205,134)	(32,040)	585,817	92,197	440,840
<u>Cash Flows From Noncapital Financing Activities:</u>					
Transfers in	-	169,654	365,952	-	535,606
Transfers out	(193,200)	(101,905)	(392,688)	(96,544)	(784,337)
Net Cash (Used For) Noncapital Financing Activities	(193,200)	67,749	(26,736)	(96,544)	(248,731)
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(297,356)	-	(153,963)	-	(451,319)
Principal payments on bonds and notes	(565,000)	(30,000)	(224,100)	-	(819,100)
Proceeds of notes payable	1,761,102	-	75,000	-	1,836,102
Interest expense	(218,750)	(5,700)	(85,342)	-	(309,792)
Net Cash Provided By (Used For) Capital and Related Financing Activities	679,996	(35,700)	(388,405)	-	255,891
<u>Cash Flows From Investing Activities:</u>					
Investment income	20,867	-	641	-	21,508
Net Cash Provided By Investing Activities	20,867	-	641	-	21,508
Net Change in Cash and Short-Term Investments	302,529	9	171,317	(4,347)	469,508
Cash and Short-Term Investments, Beginning of Year	1,394,365	288,676	879,205	1,087,847	3,650,093
Cash and Short-Term Investments, End of Year	<u>\$ 1,696,894</u>	<u>\$ 288,685</u>	<u>\$ 1,050,522</u>	<u>\$ 1,083,500</u>	<u>\$ 4,119,601</u>
<u>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</u>					
Operating income (loss)	\$ 469,756	\$ (199,038)	\$ 15,603	\$ 16,751	\$ 303,072
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	723,357	32,072	351,525	-	1,106,954
Changes in assets and liabilities:					
Receivables	68,683	(41)	93,691	9,891	172,224
Due from other governments	(1,457,016)	-	-	-	(1,457,016)
Warrants and accounts payable	12,075	23,707	27,731	15,616	79,129
Other liabilities	(39,698)	-	2,332	1,483	(35,883)
Accrued liabilities	17,709	111,260	94,935	48,456	272,360
Net Cash Provided By (Used For) Operating Activities	<u>\$ (205,134)</u>	<u>\$ (32,040)</u>	<u>\$ 585,817</u>	<u>\$ 92,197</u>	<u>\$ 440,840</u>

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

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

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ 903,866	\$ 740,456
Receivable	-	42,086
Other Assets	-	20,000
	<hr/>	<hr/>
Total Assets	903,866	802,542
 <u>LIABILITIES AND NET POSITION</u>		
Accounts payable	-	33,906
Escrow deposits	-	744,785
Other liabilities	-	23,851
	<hr/>	<hr/>
Total Liabilities	-	802,542
	<hr/>	<hr/>
 <u>NET POSITION</u>		
Total net position held in trust	\$ <u>903,866</u>	\$ <u>-</u>

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

TOWN OF MEDWAY, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 133
Investment income	2,815
Miscellaneous	<u>90,163</u>
Total additions	93,111
Deductions:	
Education	<u>64,550</u>
Total deductions	<u>64,550</u>
Net increase	28,561
Net position:	
Beginning of year	<u>875,305</u>
End of year	<u><u>\$ 903,866</u></u>

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

TOWN OF MEDWAY, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Medway (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 Selectman. 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 *community preservation fund* accounts for funds used for the acquisition, creation, and preservation of open space, historic resources, and community housing.

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 operations
- Ambulance services
- Sewer operations
- Solid waste collection fund

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.

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. 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 \$280,204.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets 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 \$10,000 and an estimated useful life in excess of two 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
Roads and improvements	20
Infrastructure	30-75
Vehicles	5
Office equipment	5
Computer equipment	5

G. 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.

H. 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 obliga-

tions are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

I. 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.

J. 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.

	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>General Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 50,334,461	\$ 50,282,925
Other financing sources/uses (GAAP basis)	<u>464,001</u>	<u>229,810</u>
Subtotal (GAAP Basis)	50,798,462	50,512,735
Adjust tax revenue to accrual basis	(347,521)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,256,661)
Add end-of-year appropriation carryforwards from expenditures	-	1,393,533
To record use of free cash	1,791,439	-
To reverse the effect of non-budgeted state contributions for teachers retirement	(5,764,825)	(5,764,825)
To remove stabilization fund	195,082	84,235
Other timing issue	<u>-</u>	<u>16,086</u>
Budgetary basis	<u>\$ 46,672,637</u>	<u>\$ 44,985,103</u>

D. Deficit Fund Equity

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

Chapter 90	\$ (102,545)
Title III english language	(475)
94-142	(96,637)
SPED program improvement	(3,519)
Title I	(14,445)
MAPC bike path	(15,000)
State 911 support incentive grant	(28,843)
Rt 109 earmark	(46,455)
MADEP water audit	(13,498)
MADEP recycle	(1,957)
Enhanced school health	(268)
Academic support	(412)
COA transportation revolving	(9,697)
Fire tank A9 5/13	(3,552)
Brentwood drainage A3 6/10	<u>(15,662)</u>
	<u>\$ (352,965)</u>

The Town's special revenue and capital project funds reflect various individual deficit fund balance accounts which will be funded by future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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." The Town does not have a deposit policy for custodial credit risk.

The Town did not have any bank balances that were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. 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	\$ 537	
2013	58	
2012	7	
2011	3	
Prior	<u>(3)</u>	
		602
Personal Property		
2014	15	
2013	4	
2012	3	
2011	2	
2010	2	
Prior	<u>16</u>	
		42
Tax Liens		1,214
Deferred Taxes		<u>105</u>
Total		<u>\$ 1,963</u>

5. 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>	<u>Business-Type</u>
Property taxes	\$ 253	\$ -
Excises	\$ 86	\$ -
Utilities	\$ -	\$ 362
Other	\$ 1	\$ -

6. Intergovernmental Receivables

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

7. Interfund Fund Transfers

Transfers between Governmental and Business-Type Activities do not offset by \$14,900. This is due to a transfer between the Agency funds and Governmental funds.

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	\$ 84,573	\$ 102	\$ -	\$ 84,675
Machinery, equipment, and furnishings	9,779	718	(138)	10,359
Infrastructure	<u>28,248</u>	<u>719</u>	<u>-</u>	<u>28,967</u>
Total capital assets, being depreciated	122,600	1,539	(138)	124,001
Less accumulated depreciation for:				
Buildings and improvements	(27,009)	(2,031)	-	(29,040)
Machinery, equipment, and furnishings	(7,073)	(492)	122	(7,443)
Infrastructure	<u>(21,134)</u>	<u>(681)</u>	<u>-</u>	<u>(21,815)</u>
Total accumulated depreciation	<u>(55,216)</u>	<u>(3,204)</u>	<u>122</u>	<u>(58,298)</u>
Total capital assets, being depreciated, net	67,384	(1,665)	(16)	65,703
Capital assets, not being depreciated:				
Land	21,228	-	-	21,228
Construction in progress	<u>21,220</u>	<u>2,921</u>	<u>-</u>	<u>24,141</u>
Total capital assets, not being depreciated	<u>42,448</u>	<u>2,921</u>	<u>-</u>	<u>45,369</u>
Governmental activities capital assets, net	<u>\$ 109,832</u>	<u>\$ 1,256</u>	<u>\$ (16)</u>	<u>\$ 111,072</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 14	\$ -	\$ -	\$ 14
Machinery, equipment, and furnishings	2,165	85	(23)	2,227
Infrastructure	<u>54,554</u>	<u>63</u>	<u>-</u>	<u>54,617</u>
Total capital assets, being depreciated	56,733	148	(23)	56,858
Less accumulated depreciation for:				
Buildings and improvements	(14)	-	-	(14)
Machinery, equipment, and furnishings	(872)	(133)	23	(982)
Infrastructure	<u>(21,015)</u>	<u>(975)</u>	<u>-</u>	<u>(21,990)</u>
Total accumulated depreciation	<u>(21,901)</u>	<u>(1,108)</u>	<u>23</u>	<u>(22,986)</u>
Total capital assets, being depreciated, net	34,832	(960)	-	33,872
Capital assets, not being depreciated:				
Land	615	-	-	615
Construction in progress	<u>119</u>	<u>304</u>	<u>-</u>	<u>423</u>
Total capital assets, not being depreciated	<u>734</u>	<u>304</u>	<u>-</u>	<u>1,038</u>
Business-type activities capital assets, net	<u>\$ 35,566</u>	<u>\$ (656)</u>	<u>\$ -</u>	<u>\$ 34,910</u>

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

Governmental Activities:	
General government	\$ 143
Public safety	246
Education	1,864
Public works	866
Culture and recreation	<u>85</u>
Total depreciation expense - governmental activities	<u>\$ 3,204</u>
Business-Type Activities:	
Water	\$ 724
Ambulance	32
Sewer	<u>352</u>
Total depreciation expense - business-type activities	<u>\$ 1,108</u>

9. Warrants Payable

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

10. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2014:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/14</u>
MWPAT CW11-20	0.15%	04/15/12	04/15/15	\$ 500,000
MWPAT T5 97-1086-C	0.00%	12/12/12	12/12/15	200,000
Tanker truck	0.55%	04/01/14	04/01/15	270,000
Sewer	0.55%	04/01/14	04/01/15	75,000
MWPAT DW-13-13	0.10%	06/04/14	06/04/15	1,501,102
Water mains and tank mixer	0.55%	04/01/14	04/01/15	<u>260,000</u>
Total				<u>\$ 2,806,102</u>

The following summarizes activity in notes payable during fiscal year 2014:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
State qualified - deficit financing	\$ 350,000	\$ -	\$ (350,000)	\$ -
MWPAT CW11-20	500,000	-	-	500,000
MWPAT T5 97-1086-C	200,000	-	-	200,000
Tanker truck	-	270,000	-	270,000
Sewer	-	75,000	-	75,000
MWPAT DW-13-13	-	1,501,102	-	1,501,102
Water mains and tank mixer	-	260,000	-	260,000
Total	<u>\$ 1,050,000</u>	<u>\$ 2,106,102</u>	<u>\$ (350,000)</u>	<u>\$ 2,806,102</u>

11. Capital Lease Obligations

The Town is the lessee of certain equipment under a capital lease expiring in 2018. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2014:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2015	\$ 28,317
2016	28,317
2017	28,317
2018	<u>28,317</u>
Total minimum lease payments	113,268
Less amounts representing interest	<u>8,637</u>
Present Value of Minimum Lease Payments	<u>\$ 104,631</u>

12. 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:

	Serial Maturities	Interest	Amount Outstanding as of
<u>Governmental Activities:</u>	<u>Through</u>	<u>Rate(s) %</u>	<u>6/30/14</u>
MWPAT (Title V Septic Mgmt.)	08/01/18	0.00%	\$ 33,275
Multipurpose	03/01/16	4.28%	310,000
Multipurpose	04/15/22	3.73%	1,375,000
MWPAT (Title V Septic Mgmt.)	08/01/23	0.00%	37,190
Multipurpose	11/15/25	4.00%	7,200,000
Multipurpose	10/15/29	2.92%	640,000
FY2011 refunding	06/15/16	1.29%	290,000
Surface refunding	08/15/23	2.54%	100,000
Town hall remodeling	08/15/20	2.28%	105,000
Energy conservation	08/15/29	3.00%	3,180,000
Public way	08/15/15	2.07%	240,000
Police communication	08/15/15	2.07%	110,000
Architectural services	08/15/15	2.07%	100,000
General obligation	02/15/32	2.02%	4,510,000
General obligation	09/15/32	1.98%	4,610,000
Multipurpose	05/15/33	2.22%	5,935,000
Total Governmental Activities:			<u>\$ 28,775,465</u>

	Serial Maturities	Interest	Amount Outstanding as of
<u>Business-Type Activities:</u>	<u>Through</u>	<u>Rate(s) %</u>	<u>6/30/14</u>
Water corrosion control	03/01/16	4.28%	\$ 120,000
Water well	10/15/29	3.18%	1,380,000
Water well	10/15/29	3.15%	435,000
Water equipment	10/15/17	2.18%	100,000
Meters	10/16/19	2.45%	630,000
Water storage tank	08/15/29	2.99%	630,000
Well	08/15/29	2.97%	460,000
Water meters	08/15/15	2.07%	20,000
Water	02/15/32	2.02%	2,530,000
Sewer projects	10/07/14	5.00%	24,100
Sewer projects	04/21/17	5.00%	18,000
Sewer projects	10/15/29	3.17%	1,325,000
Sewer projects	08/15/29	3.01%	800,000
General obligation	09/15/33	1.98%	180,000
General obligation	09/15/33	1.98%	150,000
Total Business-Type Activities:			<u>\$ 8,802,100</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	\$ 2,570,494	\$ 856,735	\$ 3,427,229
2016	2,465,494	769,806	3,235,300
2017	1,955,494	691,783	2,647,277
2018	1,950,494	634,010	2,584,504
2019	1,935,494	570,352	2,505,846
2020 - 2024	8,912,995	1,963,266	10,876,261
2025 - 2029	6,000,000	832,871	6,832,871
2030 - 2034	<u>2,985,000</u>	<u>179,156</u>	<u>3,164,156</u>
Total	<u>\$ 28,775,465</u>	<u>\$ 6,497,979</u>	<u>\$ 35,273,444</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 775,100	\$ 268,534	\$ 1,043,634
2016	746,000	244,235	990,235
2017	671,000	222,401	893,401
2018	655,000	203,551	858,551
2019	625,000	183,451	808,451
2020 - 2024	2,460,000	655,380	3,115,380
2025 - 2029	2,180,000	299,237	2,479,237
2030 - 2034	<u>690,000</u>	<u>26,402</u>	<u>716,402</u>
Total	<u>\$ 8,802,100</u>	<u>\$ 2,103,191</u>	<u>\$ 10,905,291</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 <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 31,451	\$ -	\$ (2,676)	\$ 28,775	\$ (2,570)	\$ 26,205
Other:						
Capital lease	-	133	(28)	105	(25)	80
Compensated absences	709	77	-	786	(79)	707
Accrued other post-employment benefits	<u>14,789</u>	<u>2,744</u>	<u>-</u>	<u>17,533</u>	<u>-</u>	<u>17,533</u>
Totals	<u>\$ 46,949</u>	<u>\$ 2,954</u>	<u>\$ (2,704)</u>	<u>\$ 47,199</u>	<u>\$ (2,674)</u>	<u>\$ 44,525</u>

(continued)

(continued)

	Total Balance <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/14</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 9,621	\$ -	\$ (819)	\$ 8,802	\$ (775)	\$ 8,027
Other:						
Compensated absences	37	2	-	39	(4)	35
Accrued other post- employment benefits	<u>309</u>	<u>220</u>	<u>-</u>	<u>529</u>	<u>-</u>	<u>529</u>
Totals	<u>\$ 9,967</u>	<u>\$ 222</u>	<u>\$ (819)</u>	<u>\$ 9,370</u>	<u>\$ (779)</u>	<u>\$ 8,591</u>

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>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>
Unearned Revenues	\$ 1,894,318	\$ 16,256	\$ 34,549

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 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	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 110,869	\$ 110,869
Total Nonspendable	-	-	110,869	110,869
Restricted				
Bonded projects	-	-	694,674	694,674
Special revenue funds	-	4,986,875	2,524,778	7,511,653
Expendable permanent funds	-	-	633,107	633,107
Total Restricted	-	4,986,875	3,852,559	8,839,434
Committed				
Reserve for continuing appropriations				
General government	258,058	-	-	258,058
Public safety	31,532	-	-	31,532
Education	117,784	-	-	117,784
Public works	714,811	-	-	714,811
Health and human services	5,786	-	-	5,786
Culture and recreation	75,054	-	-	75,054
Stabilization storm reserve	211,647	-	-	211,647
Stabilization health insurance	52,515	-	-	52,515
Stabilization ESCO	173,341	-	-	173,341
Stabilization OPEB	100,600	-	-	100,600
Stabilization capital improvements	589,591	-	-	589,591
Fiscal stability	784,545	-	-	784,545
Total Committed	3,115,264	-	-	3,115,264
Assigned				
Encumbrances				
General government	30,485	-	-	30,485
Public safety	53,025	-	-	53,025
Education	95,234	-	-	95,234
Public works	7,166	-	-	7,166
Culture and recreation	4,598	-	-	4,598
Reserve for excluded debt	465,916	-	-	465,916
Reserve for debt service	807,616	-	-	807,616
Reserved for expenditures	1,502,250	-	-	1,502,250
Total Assigned	2,966,290	-	-	2,966,290
Unassigned				
Special revenue	-	-	(333,751)	(333,751)
Capital projects	-	-	(19,214)	(19,214)
General trust stabilization	1,921,806	-	-	1,921,806
General operating stabilization	546,375	-	-	546,375
General fund	3,269,516	-	-	3,269,516
Total Unassigned	5,737,697	-	(352,965)	5,384,732
Total Fund Balance	\$ 11,819,251	\$ 4,986,875	\$ 3,610,463	\$ 20,416,589

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	\$ 5,737,697
Stabilization fund	(2,468,181)
Tax refund estimate	<u>244,227</u>
Statutory (UMAS) Balance	<u><u>\$ 3,513,743</u></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 June 30, 2013, the actuarial valuation date, approximately 152 retirees and 310 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 June 30, 2013.

Annual Required Contribution (ARC)	\$ 4,271,291
Interest on net OPEB obligation	603,916
Adjustment to ARC	<u>(934,749)</u>
Annual OPEB cost	3,940,458
Contributions made	<u>(975,505)</u>
Increase in net OPEB obligation	2,964,953
Net OPEB obligation - beginning of year	<u>15,097,892</u>
Net OPEB obligation - end of year	<u><u>\$ 18,062,845</u></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	\$ 3,940,458	25%	\$ 18,062,845
2013	\$ 3,251,584	28%	\$ 15,097,892
2012	\$ 3,097,609	26%	\$ 12,745,485

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 June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 38,407,572
Less actuarial value of plan assets	<u>(50,489)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 38,357,083</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.1%</u>
Covered payroll (active plan members)	<u>\$ 18,282,384</u>
UAAL as a percentage of covered payroll	<u>210%</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 June 30, 2013 actuarial valuation the entry age actuarial cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 8%, which decreases to a 5% long-term rate for all healthcare benefits after 2019. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

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 Norfolk County Retirement System at 480 Neponset Street, Building 15, Canton, Massachusetts 02021.

A. Plan Description

The Town contributes to the Norfolk County 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 Norfolk County Retirement System at 480 Neponset Street, Building 15, Canton, Massachusetts 02021.

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 based on active covered payroll. 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 \$1,339,626, \$1,284,822, and \$1,224,201, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

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 \$5,764,825 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. **Beginning Fund Balance Reclassification**

The Town's major governmental funds for fiscal year 2014, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/13 (as previously reported)	Reclassification Major Fund	Fund Equity 6/30/13 (as restated)
Nonmajor Governmental Funds	\$ 5,255,131	\$ 995,142	\$ 6,250,273
Middle School Renovation Funds	<u>995,142</u>	<u>(995,142)</u>	<u>-</u>
As restated	<u>\$ 6,250,273</u>	<u>\$ -</u>	<u>\$ 6,250,273</u>

22. **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 Norfolk County Retirement System's actuarially accrued liability.

**TOWN OF MEDWAY, 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 Percent- age of Covered Payroll [(b-a)/c]
6/30/2013	\$ 50,489	\$ 38,407,572	\$ 38,357,083	0.1%	\$ 18,282,384	210.1%
6/30/2011	\$ -	\$ 31,351,424	\$ 31,351,424	0.0%	N/A	N/A
6/30/2009	\$ -	\$ 29,616,372	\$ 29,616,372	0.0%	N/A	N/A
6/30/2007	\$ -	\$ 37,604,481	\$ 37,604,481	0.0%	N/A	N/A

**NORFOLK COUNTY 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 Percent- age of Covered Payroll [(b-a)/c]
01/01/12	\$ 608,235,096	\$ 1,128,960,288	\$ 520,725,192	53.9%	\$ 229,095,409	227.3%
01/01/10	\$ 600,790,835	\$ 1,001,881,055	\$ 401,090,220	60.0%	\$ 223,332,595	179.6%
01/01/08	\$ 596,157,147	\$ 907,719,124	\$ 311,561,977	65.7%	\$ 223,814,977	139.2%

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

System Wide				Town of Medway	
Plan Year End	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 44,800,000	\$ 44,800,000	100%	\$ 1,339,626	3.0%
12/31/12	\$ 42,714,639	\$ 42,714,639	100%	\$ 1,284,822	3.0%
12/31/11	\$ 41,206,587	\$ 41,206,587	100%	\$ 1,224,201	3.0%
12/31/10	\$ 39,749,857	\$ 39,749,857	100%	\$ 1,148,901	2.9%

See Independent Auditors' Report.