

Town of Ashfield, Massachusetts

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

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2014

TOWN OF ASHFIELD, MASSACHUSETTS

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Position – Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	10
Statement of Cash Flows – Proprietary Funds	11
Statement of Fiduciary Net Position	12
Statement of Changes in Fiduciary Net Position	13
Notes to Basic Financial Statements	14 - 32
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedules of Funding Progress –	
Pension System and Other Postemployment Benefits	32
Schedule of Contribution Funding –	
Pension System and Other Postemployment Benefits	32
Schedule of Revenues, Expenditures and Changes in Fund Balances –	
Budget and Actual – General Fund	33
Notes to Required Supplementary Information	34
<u>OTHER REPORTS:</u>	
Report on Internal Control Over Financial and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35- 36



INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Ashfield, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the business-type activities and the aggregate remaining fund information of the Town of Ashfield, Massachusetts, (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of those risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the business-type activities and the aggregate remaining fund information of the Town as of June 30, 2014 and the respective changes in financial position where applicable and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note IV. Section A, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the funding and contribution progress for pension benefits and other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 23, 2015

TOWN OF ASHFIELD, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,724,611	\$ 117,894	\$ 1,842,505
Receivables, net of allowance for uncollectible accounts:			
Real estate and personal property taxes	187,067	-	187,067
User fees	-	89,989	89,989
Intergovernmental	177,503	-	177,503
Departmental and other	88,020	-	88,020
Capital assets not being depreciated	321,111	113,500	434,611
Capital assets, net of accumulated depreciation	<u>3,381,227</u>	<u>3,103,664</u>	<u>6,484,891</u>
Total Assets	<u>5,879,539</u>	<u>3,425,047</u>	<u>9,304,586</u>
Liabilities			
Warrants and accounts payable	399,115	10,458	409,573
Accrued payroll and withholdings	32,102	-	32,102
Other liability	3,929	-	3,929
Noncurrent liabilities:			
Due within one year	172,600	309	172,909
Due in more than one year	<u>1,250,332</u>	<u>25,866</u>	<u>1,276,198</u>
Total Liabilities	<u>1,858,078</u>	<u>36,633</u>	<u>1,894,711</u>
Net Position			
Net Investment in capital assets	2,487,128	3,217,164	5,704,292
Restricted:			
Nonexpendable permanent funds	28,772	-	28,772
Expendable permanent funds	52,995	-	52,995
Other purposes	213,435	-	213,435
Unrestricted	<u>1,239,131</u>	<u>171,250</u>	<u>1,410,381</u>
Total Net Position	<u>\$ 4,021,461</u>	<u>\$ 3,388,414</u>	<u>\$ 7,409,875</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 459,297	\$ 30,334	\$ 2,128	\$ -	\$ (426,835)		\$ (426,835)
Public safety	278,380	7,000	10,508	-	(260,872)		(260,872)
Education	2,289,593	-	164,710	-	(2,124,883)		(2,124,883)
Public works	779,891	63,004	383,553	-	(333,334)		(333,334)
Health and human services	55,561	3,840	20,240	-	(31,481)		(31,481)
Culture and recreation	110,503	3,077	10,031	-	(97,395)		(97,395)
Debt service	82,212	-	-	-	(82,212)		(82,212)
	<u>4,055,437</u>	<u>107,255</u>	<u>591,170</u>	<u>-</u>	<u>(3,357,012)</u>		<u>(3,357,012)</u>
Business-type activities:							
Sewer	257,644	121,345	-	-		(136,299)	(136,299)
Total business-type activities	<u>257,644</u>	<u>121,345</u>	<u>-</u>	<u>-</u>		<u>(136,299)</u>	<u>(136,299)</u>
Total Primary Government	\$ 4,313,081	\$ 228,600	\$ 591,170	\$ -	(3,357,012)	(136,299)	(3,493,311)
General Revenues:							
					3,486,936	-	3,486,936
					168,236	-	168,236
					183,309	-	183,309
					38,369	-	38,369
					12,835	-	12,835
					<u>3,889,685</u>	<u>-</u>	<u>3,889,685</u>
					532,673	(136,299)	396,374
					<u>3,488,788</u>	<u>3,524,713</u>	<u>7,013,501</u>
					\$ 4,021,461	\$ 3,388,414	\$ 7,409,875

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,585,749	\$ 138,862	\$ 1,724,611
Investments	-	-	-
Receivables, net of allowance:			
Real estate and personal property taxes	187,067	-	187,067
Intergovernmental	-	177,503	177,503
Departmental and other	88,020	-	88,020
Total Assets	<u>1,860,836</u>	<u>316,365</u>	<u>2,177,201</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,860,836</u>	<u>\$ 316,365</u>	<u>\$ 2,177,201</u>
Liabilities:			
Warrants and accounts payable	\$ 365,776	\$ 33,339	\$ 399,115
Accrued payroll and withholdings	32,102	-	32,102
Other liabilities	3,929	-	3,929
Total Liabilities	<u>401,807</u>	<u>33,339</u>	<u>435,146</u>
Deferred Inflows of Resources:			
Unavailable revenues - property taxes	187,067	-	187,067
Unavailable revenues - other	88,020	-	88,020
Total Deferred Inflow of Resources	<u>275,087</u>	<u>-</u>	<u>275,087</u>
Fund Balances:			
Nonspendable	-	28,772	28,772
Restricted	-	266,430	266,430
Committed	101,422	-	101,422
Assigned	179,000	-	179,000
Unassigned	903,520	(12,176)	891,344
Total Fund Balances	<u>1,183,942</u>	<u>283,026</u>	<u>1,466,968</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,860,836</u>	<u>\$ 316,365</u>	<u>\$ 2,177,201</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Governmental Fund Balances		\$ 1,466,968
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,702,338
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds..		275,087
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:		
Bonds and notes payable	(1,215,210)	
Compensated absences	(10,377)	
Other postemployment benefits	<u>(197,345)</u>	
Net effect of reporting long-term liabilities		<u>(1,422,932)</u>
Net Position of Governmental Activities		<u>\$ 4,021,461</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Real estate and personal property taxes, net	\$ 3,482,157	\$ -	\$ 3,482,157
Intergovernmental	348,986	405,341	754,327
Motor vehicle and other excises	197,986	-	197,986
Licenses and permits	5,375	-	5,375
Departmental and other revenue	90,665	7,473	98,138
Penalties and interest on taxes	38,369	-	38,369
Fines and forfeitures	3,742	-	3,742
Contributions and donations	-	5,079	5,079
Investment income	2,201	10,634	12,835
Total Revenues	<u>4,169,481</u>	<u>428,527</u>	<u>4,598,008</u>
Expenditures:			
Current:			
General government	308,360	58,157	366,517
Public safety	203,584	9,833	213,417
Education	2,286,514	200	2,286,714
Public works	690,284	494,922	1,185,206
Health and human services	49,845	4,000	53,845
Culture and recreation	67,371	28,522	95,893
Pension and fringe benefits	132,090	-	132,090
State and county assessments	43,096	-	43,096
Debt service:			
Principal	130,331	-	130,331
Interest	82,212	-	82,212
Total Expenditures	<u>3,993,687</u>	<u>595,634</u>	<u>4,589,321</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>175,794</u>	<u>(167,107)</u>	<u>8,687</u>
Other Financing Sources (Uses):			
Proceeds from long-term debt issuance	-	88,206	88,206
Transfers in	6,200	-	6,200
Transfers out	-	(6,200)	(6,200)
Total Other Financing Sources (Uses)	<u>6,200</u>	<u>82,006</u>	<u>88,206</u>
Net Change in Fund Balances	181,994	(85,101)	96,893
Fund Balances - Beginning	<u>1,001,948</u>	<u>368,127</u>	<u>1,370,075</u>
Fund Balances - Ending	<u>\$ 1,183,942</u>	<u>\$ 283,026</u>	<u>\$ 1,466,968</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 96,893**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected as:

Capital outlays	634,018	
Depreciation	<u>(218,435)</u>	
Net effect of reporting capital assets		415,583

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. During the year, the following activity was recorded:

Debt issues	(88,206)	
Repayments of debt	<u>160,652</u>	
Net effect of reporting long-term debt		72,446

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (9,898)

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

Other postemployment benefits	<u>(42,351)</u>	
Net effect of reporting long-term liabilities		<u>(42,351)</u>

Change in Net Position of Governmental Activities **\$ 532,673**

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2014

	Business-Type Enterprise Fund Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 117,894
Receivables, net:	
User charges	89,989
Total current assets	<u>207,883</u>
Noncurrent assets:	
Capital assets, not being depreciated	113,500
Capital assets, net of depreciation	3,103,664
Total noncurrent assets	<u>3,217,164</u>
Total Assets	<u>3,425,047</u>
Liabilities	
Current liabilities:	
Warrants and accounts payable	10,458
Compensated absences	309
Total current liabilities	<u>10,767</u>
Noncurrent liabilities:	
Compensated absences	1,236
Other postemployment benefits	24,630
Total noncurrent liabilities	<u>25,866</u>
Total Liabilities	<u>36,633</u>
Net Position	
Net investment in capital assets	3,217,164
Unrestricted	171,250
Total Net Position	<u>\$ 3,388,414</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014**

	<u>Business-Type Enterprise Fund Sewer</u>
Operating Revenues	
Charges for services	\$ 120,980
Other	365
Total Operating Revenues	<u>121,345</u>
Operating Expenses	
Operating costs	117,216
Depreciation	140,428
Total Operating Expenses	<u>257,644</u>
Operating Income (Loss)	<u>(136,299)</u>
Change in Net Position	(136,299)
Net Position - Beginning	<u>3,524,713</u>
Net Position - Ending	<u>\$ 3,388,414</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

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

	Business-Type Enterprise Fund <u>Sewer</u>
Cash Flows from Operating Activities	
Receipts from users	\$ 121,389
Payments to employees	(70,053)
Payments to vendors	<u>(31,420)</u>
Net Cash Provided by (Used for) Operating Activities	<u>19,916</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	<u>(24,916)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(24,916)</u>
Net Change in Cash and Cash Equivalents	(5,000)
Cash and Cash Equivalents	
Beginning of year	<u>122,894</u>
End of year	<u><u>\$ 117,894</u></u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities	
Operating income (loss)	\$ (136,299)
Depreciation expense	140,428
Changes in assets and liabilities:	
Receivables (net)	44
Liabilities (net)	<u>15,743</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 19,916</u></u>

TOWN OF ASHFIELD, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Private Purpose Trust Funds	Agency Fund
Assets:		
Cash and cash equivalents	\$ 185,368	\$ 4,551
Total Assets	<u>185,368</u>	<u>4,551</u>
Liabilities:		
Warrants payable	300	2,265
Agency liabilities	-	2,286
Total Liabilities	<u>300</u>	<u>4,551</u>
Net Position:		
Held in trust for other purposes	<u>185,068</u>	<u>-</u>
Total Net Position	<u>\$ 185,068</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income	\$ 511
Total Additions	<u>511</u>
Deductions:	
Health and human service assistance	<u>1,998</u>
Total Deductions	<u>1,998</u>
Change in Net Position	(1,487)
Total Net Position - Beginning	<u>186,555</u>
Total Net Position - Ending	<u><u>\$ 185,068</u></u>

See accompanying notes to basic financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located in Franklin County, approximately 120 miles northwest of Boston. The Town is bordered by the Town of Plainfield on the west, the Towns of Cummington and Goshen on the southwest and south, the Town of Ashfield on the east and the Town of Buckland and Hawley on the north and northwest. The Town was incorporated in 1765. The governing structure utilizes an open town meeting, with an elected three-member Select Board, and an appointed Town Administrator who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, and street maintenance.

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

The Town is a member community of the Mohawk Regional School District that provides educational services to nine area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2014, the Town's share of the operating and debt service expenses was \$1,989,123. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 24 Ashfield Road, Shelburne Falls, MA 01370.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. 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 service. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable for.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

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

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

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

The government reports the following major governmental funds:

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

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

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

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

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

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

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

The government reports the following major proprietary fund:

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

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The government reports the following fiduciary funds:

Private-Purpose Trust Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships and needy citizen benefit funds.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details and employee payroll withholdings. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

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

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

Investments for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Sewer user fees are billed periodically multiple times annually based on the individual meter readings and are subject to interest and penalties if not paid by the respective due dates. Property taxes, motor vehicle excise taxes and sewer user fees are recorded as receivables in the fiscal year of the levy.

Real estate taxes and sewer user fees may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental and other receivables are shown net of allowance for uncollectible balances based on historical trends and specific account analysis.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

Buildings and improvements	10-40 years
Machinery and equipment	3-15 years
Vehicles	3-15 years
Infrastructure	20-50 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

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

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

Compensated Absences – The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused sick leave (subject to certain limitations) at their current rates of pay. Compensated absence liability related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting as a deferred outflow.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes, and excise. These amounts are deferred and recognized as an inflow of resource in the period that the amounts become available.

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

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

Nonexpendable permanent funds represents the endowment portion of donor restricted trusts that support governmental programs.

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

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

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

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

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

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

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

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a

positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Funds – The Town maintains a stabilization fund which may be used for any municipal purpose upon two-thirds vote of the Town Meeting. The balance of the fund totals \$418,092 at June 30, 2014, and is reported as unassigned fund balance in the general fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Administrator as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$101,422 of encumbrances from Town Meeting votes in the General Fund as committed. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

	General	Nonmajor Governmental Funds	Total
Non-Spendable:			
Perpetual permanent funds	\$ -	\$ 28,772	\$ 28,772
Restricted:			
General government	-	97,004	97,004
Public safety	-	20,543	20,543
Education	-	500	500
Public works	-	2,004	2,004
Other purposes	-	146,379	146,379
Committed:			
General Government	37,612	-	37,612
Public Safety	13,373	-	13,373
Public Works	22,600	-	22,600
Culture and Recreation	27,837	-	27,837
Assigned:			
Subsequent years' budget	179,000	-	179,000
Unassigned	903,520	(12,176)	891,344
Totals	\$ 1,183,942	\$ 283,026	\$ 1,466,968

E. Excess of Expenditures Over Appropriations and Deficits

The Town has incurred several deficits in the Nonmajor Governmental Funds. These deficits will be funded through available funds or grant proceeds during fiscal year 2015 and have been reported as unassigned in the above table.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (the MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$2,032,424 and the bank balance of \$1,633,116. Of the Town's balance, \$664,805 was covered by federal depository insurance, and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. All securities not held directly by the Town will be held in the Town's name and tax identification number by a third party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The investments in MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town does not have a formal investment policy related to custodial credit risk.

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

Concentration of Credit Risk - The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town maintained 15% of its monetary

funds with the MMDT, which represent the only singularly invested entity that exceeds 10% of the monetary holdings.

Credit Risk – The Town has not adopted a formal policy related to credit risk. The Town’s investment in MMDT is unrated; other securities with maturities have their credit ratings disclosed below.

At June 30, 2014 the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Time until maturity (years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 10,185 *	\$ 10,185	\$ -
Total investments with maturities	10,185	10,185	-
<u>Other Investments:</u>			
Mutual funds	19,436		
State investment pool	304,739		
Total Investments	<u>\$ 334,360</u>		

* Certificates of deposit have also been included in the carrying amount of deposits in the custodial credit risk of deposits as these investments are subject to federal depository insurance coverage.

As of June 30, 2014, the credit quality ratings of investments were as follows:

<u>Quality Ratings (Moody's)</u>	<u>Investment Type</u>
	<u>Certificates of Deposit</u>
Unrated	\$ 10,185
Totals	<u>\$ 10,185</u>

B. Receivables

Receivables as of year-end for the Town’s major governmental funds and non-major governmental funds in the aggregate, include the applicable allowance for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 187,067	\$ -	\$ 187,067
Tax liens and possessions	68,413	-	68,413
Excise	19,607	-	19,607
Intergovernmental	177,503	-	177,503
Total Governmental Receivable	<u>\$ 452,590</u>	<u>\$ -</u>	<u>\$ 452,590</u>

Receivables as of year-end for the Town's sewer enterprise fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Sewer user charges	\$ 89,989	\$ -	\$ 89,989
Total Business-Type Receivable	<u>\$ 89,989</u>	<u>\$ -</u>	<u>\$ 89,989</u>

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 321,111	\$ -	\$ -	\$ 321,111
Construction in progress	34,987	-	-	34,987
Total capital assets not being depreciated	<u>356,098</u>	<u>-</u>	<u>-</u>	<u>356,098</u>
Capital assets being depreciated:				
Buildings and improvements	2,048,233	9,541	-	2,057,774
Infrastructure	1,555,215	406,716	-	1,961,931
Machinery and equipment	360,632	217,761	-	578,393
Vehicles	1,015,075	-	-	1,015,075
Total capital assets being depreciated	<u>4,979,155</u>	<u>634,018</u>	<u>-</u>	<u>5,613,173</u>
Less accumulated depreciation for:				
Buildings and improvements	(763,050)	(68,558)	-	(831,608)
Infrastructure	(262,483)	(75,354)	-	(337,837)
Machinery and equipment	(325,044)	(25,094)	-	(350,138)
Vehicles	(697,920)	(49,430)	-	(747,350)
Total accumulated depreciation	<u>(2,048,497)</u>	<u>(218,436)</u>	<u>-</u>	<u>(2,266,933)</u>
Total capital assets being depreciated, net	<u>2,930,658</u>	<u>415,582</u>	<u>-</u>	<u>3,346,240</u>
Governmental activities capital assets, net	<u>\$ 3,286,756</u>	<u>\$ 415,582</u>	<u>\$ -</u>	<u>\$ 3,702,338</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities - Sewer:</i>				
Capital assets not being depreciated:				
Land	\$ 113,500	\$ -	\$ -	\$ 113,500
Total capital assets not being depreciated	<u>113,500</u>	<u>-</u>	<u>-</u>	<u>113,500</u>
Capital assets being depreciated:				
Buildings and improvements	-	24,916	-	24,916
Infrastructure	5,379,869	-	-	5,379,869
Total capital assets being depreciated	<u>5,379,869</u>	<u>24,916</u>	<u>-</u>	<u>5,404,785</u>
Less accumulated depreciation for:				
Buildings and improvements	-	(311)	-	(311)
Infrastructure	(2,160,693)	(140,117)	-	(2,300,810)
Total accumulated depreciation	<u>(2,160,693)</u>	<u>(140,428)</u>	<u>-</u>	<u>(2,301,121)</u>
Total capital assets being depreciated, net	<u>3,219,176</u>	<u>(115,512)</u>	<u>-</u>	<u>3,103,664</u>
Sewer capital assets, net	<u>\$ 3,332,676</u>	<u>\$ (115,512)</u>	<u>\$ -</u>	<u>\$ 3,217,164</u>
Depreciation expense was charged to functions/programs as follows:				
<i>Governmental Activities:</i>		<i>Business-Type Activities:</i>		
General government	\$ 12,903	Sewer		\$ 140,428
Public safety	28,935	Total Business-Type Activities		<u>\$ 140,428</u>
Culture and recreation	6,033			
Public works	<u>170,565</u>			
	<u>\$ 218,436</u>			

D. Interfund Receivables, Payables and Transfers

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

	Transfers In		
	General Fund	Total	
Transfers Out			
Nonmajor Governmental Funds	\$ 6,200	\$ 6,200	(1)
Total	<u>\$ 6,200</u>	<u>\$ 6,200</u>	

(1) Transfers to general fund to subsidize operating budgets.

E. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2014, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2013	Additions	Retirements	June 30, 2014
BAN	0.59%	Matured	\$ 195,000	\$ -	\$ (195,000)	\$ -
Total Notes Payable			<u>\$ 195,000</u>	<u>\$ -</u>	<u>\$ (195,000)</u>	<u>\$ -</u>

F. Long-Term Obligations

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

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

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

The following reflects the activity of long-term obligations for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<u>Governmental Activities:</u>					
Bonds and notes payable	\$ 1,287,656	\$ 88,206	\$ (160,652)	\$ 1,215,210	\$ 170,525
Compensated absences	10,377	1,037	(1,037)	10,377	2,075
Other postemployment benefits	154,994	61,002	(18,651)	197,345	-
Total Governmental Activities	<u>\$ 1,453,027</u>	<u>\$ 150,245</u>	<u>\$ (180,340)</u>	<u>\$ 1,422,932</u>	<u>\$ 172,600</u>
<u>Business-Type Activities:</u>					
Compensated absences	\$ 1,545	\$ 1,545	\$ (1,545)	\$ 1,545	\$ 309
Other postemployment benefits	19,345	7,614	(2,329)	24,630	-
Total Business-Type Activities	<u>\$ 20,890</u>	<u>\$ 9,159</u>	<u>\$ (3,874)</u>	<u>\$ 26,175</u>	<u>\$ 309</u>
Total Long-Term Obligations	<u>\$ 1,473,917</u>	<u>\$ 159,404</u>	<u>\$ (184,214)</u>	<u>\$ 1,449,107</u>	<u>\$ 172,909</u>

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the sewer enterprise fund.

The following is a summary of long-term debt obligations as of June 30, 2014:

Description of Issue	Interest Rate	Outstanding July 1, 2013	Additions	Retirements	Outstanding June 30, 2014
<u>Governmental Activities:</u>					
General Obligation Bonds	0.53 - 4.4%	\$ 1,287,656	\$ 88,206	\$ (160,652)	\$ 1,215,210
Total Bonds and Notes Payable		<u>\$ 1,287,656</u>	<u>\$ 88,206</u>	<u>\$ (160,652)</u>	<u>\$ 1,215,210</u>

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

Year Ending June 30,	Principal	Interest
2015	\$ 170,525	\$ 45,472
2016	34,823	43,093
2017	34,823	41,657
2018	34,823	40,220
2019	34,823	38,784
2020-2024	174,115	172,373
2025-2029	174,115	136,462
2030-2034	174,115	100,550
2035-2039	174,115	64,639
2040-2044	174,115	28,728
2045	34,818	1,436
Total	<u>\$ 1,215,210</u>	<u>\$ 713,414</u>

Authorized and unissued – The Town had no authorized and unissued debt as of June 30, 2014.

III. Other Information

A. Retirement System

Plan Description - The Town contributes to the Franklin Regional Retirement System (the System), a multiple-employer defined benefit pension plan established under MGL Chapter 32 and is administered by the Franklin Regional Retirement Board (the Board).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC) that includes financial statements and required supplementary information. The report may be obtained by writing to the Franklin Regional Retirement System, 278 Main Street, Suite 311, Greenfield, Massachusetts 01301.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 5% - 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2014, 2013, and 2012 were \$71,704; \$66,666; and \$63,077 respectively, which equaled its required contribution for each year. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$2,879 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

D. Other Post-Employment Benefits (OPEB)

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's

insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 35% of the calculated contributions and the remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town’s annual OPEB cost is calculated based on the annual required contribution “ARC” of the employer. The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement #45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town’s OPEB obligation:

Annual required contribution (ARC)	\$ 69,454
Interest on net OPEB obligation	6,974
Adjustment to ARC	<u>(7,812)</u>
Annual OPEB cost	68,616
Contributions made	<u>(20,979)</u>
Increase in net OPEB obligation	47,637
Net OPEB obligation at beginning of year,	<u>174,338</u>
Net OPEB obligation at end of year	<u><u>\$ 221,975</u></u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2014	\$ 68,616*	30.6%	\$ 221,975
June 30, 2013	\$ 66,155	36.1%	\$ 174,338
June 30, 2012	\$ 49,418	48.3%	\$ 132,056

* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2014 was charged to the following functional programs: General Government \$16,471; Public Safety \$12,810; Public Works \$28,061; Health and Human Services \$610; Culture and recreation \$3,050 and Sewer \$7,614.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014 for the most recent actuarial valuation performed as of June 30, 2010, was as follows:

Actuarial accrued liability (AAL)	\$ 689,938
Actuarial value of plan assets	-

Unfunded actuarial accrued liability (UAAL)	\$ 689,938
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annually payroll of active employees covered by the plan)	\$ 482,272
UAAL as a percentage of covered payroll	143.06%

The projection of future benefit payments of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions used are as follows:

Actuarial cost method	Entry age normal actuarial cost method
Amortization method	Level dollar amount open basis
Remaining amortization period	25 years
Interest discount rate	3%
Average salary increase	3%
Healthcare/Medical cost trend rate	8% for 2014 and 5% thereafter

E. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2014.

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

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

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

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

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

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange financial Guarantees*. The objective of GSB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

B. Future Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 are effective for the System as of December 31, 2014 and the correlative impact will be reflected by the Town in fiscal year 2015. The Town believes the adoption of this statement will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their

long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town believes the adoption of this statement will have a material impact on the financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF ASHFIELD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

SCHEDULES OF FUNDING PROGRESS

Pension System - Franklin Regional Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2014	\$ 105,787,170	\$ 151,531,013	\$ 45,743,843	69.8%	\$ 30,854,652	148.3%
1/1/2012	85,648,257	135,323,194	49,674,937	63.3%	30,037,760	165.4%
1/1/2010	79,458,638	119,349,250	39,890,612	66.6%	29,457,390	135.4%

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2010	-	689,938	689,938	0.0%	482,272	143.1%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended December 31,	Franklin Regional Retirement System			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2014	\$ 5,676,096	\$ 5,676,096	100%	\$ 71,704	1.3%
2013	5,290,063	5,290,063	100%	66,666	1.3%
2012	4,998,365	4,998,365	100%	63,077	1.3%

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2014	\$ 68,616	\$ 20,979	30.6%
2013	66,155	23,873	36.1%
2012	49,418	23,873	48.3%

See accompanying independent auditor's report.

TOWN OF ASHFIELD, MASSACHUSETTS

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

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues:						
Property taxes	\$ 3,460,200	\$ 3,460,200	\$ 3,482,157		\$ 3,482,157	\$ 21,957
Intergovernmental	272,208	272,208	346,107		346,107	73,899
Motor vehicle and other excises	165,000	165,000	197,986		197,986	32,986
Licenses and permits	2,000	2,000	5,375		5,375	3,375
Departmental and other revenue	61,000	61,000	90,665		90,665	29,665
Penalties and interest on taxes	20,000	20,000	38,369		38,369	18,369
Fines and forfeits	1,000	1,000	3,742		3,742	2,742
Investment income	1,000	1,000	1,429		1,429	429
Total Revenues	<u>3,982,408</u>	<u>3,982,408</u>	<u>4,165,830</u>		<u>4,165,830</u>	<u>183,422</u>
Expenditures:						
General government	355,036	356,143	308,360	\$ 37,112	345,472	10,671
Public safety	233,713	235,745	203,584	13,373	216,957	18,788
Education	2,318,124	2,315,924	2,286,514	-	2,286,514	29,410
Public works	686,153	758,753	690,284	22,600	712,884	45,869
Health and human services	54,404	55,637	49,845	-	49,845	5,792
Culture and recreation	95,970	95,970	67,371	27,837	95,208	762
Pension and fringe benefits	158,479	160,299	129,211	-	129,211	31,088
State and county tax assessments	43,526	43,589	43,096	-	43,096	493
Debt service	217,597	217,742	212,543	-	212,543	5,199
Total Expenditures	<u>4,163,002</u>	<u>4,239,802</u>	<u>3,990,808</u>	<u>100,922</u>	<u>4,091,730</u>	<u>148,072</u>
Other Financing Sources (Uses):						
Transfers in	2,000	6,200	6,200		6,200	-
Transfers out	(200,500)	(200,500)	(200,000)		(200,000)	(500)
Total Other Financing Sources (Uses)	<u>(198,500)</u>	<u>(194,300)</u>	<u>(193,800)</u>		<u>(193,800)</u>	<u>(500)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Uses of Prior Year Budgetary Fund Balance	<u>(379,094)</u>	<u>(451,694)</u>	<u>\$ (18,778)</u>		<u>\$ (119,700)</u>	<u>\$ 330,994</u>
Other Budgetary Items:						
Prior year encumbrances	91,094	91,094				
Use of free cash	<u>288,000</u>	<u>360,600</u>				
Total Other Budgetary Items	<u>379,094</u>	<u>451,694</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

TOWN OF ASHFIELD, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town Meeting members at the Town’s annual meeting. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within the departmental budget. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unassigned fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2014, Town Meeting approved approximately \$76,000 in supplemental budgetary appropriations, primarily for public works purposes.

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

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2014, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis	\$ -	\$ -	\$ 4,165,830
Stabilization investment income	-	772	772
On-behalf payments by other government	2,879	-	2,879
Revenues on a GAAP basis	<u>\$ 2,879</u>	<u>\$ 772</u>	<u>\$ 4,169,481</u>
Expenditures on a budgetary basis	\$ -	\$ -	\$ 3,990,808
On-behalf payments by other government	2,879	-	2,879
Expenditures on a GAAP basis	<u>\$ 2,879</u>	<u>\$ -</u>	<u>\$ 3,993,687</u>
Other financing sources (uses) on a budgetary basis	\$ -	\$ -	\$ (193,800)
Stabilization transfers, net	-	200,000	200,000
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 6,200</u>



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

The Honorable Members of the Board of Selectmen
Town of Ashfield, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Ashfield, Massachusetts (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 23, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 23, 2015