

TOWN OF NORWELL, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Norwell, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Norwell, 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 Norwell, 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 Norwell, 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 October 24, 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

October 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Norwell, we offer readers this narrative overview and analysis of the financial activities of the Town of Norwell 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, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water 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 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 operations, which is considered to be a major fund.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$93,235,009 (i.e., net position), a change of \$(1,626,732) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$25,299,241, a change of \$2,451,653 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,848,692, a change of \$(349,833) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$24,308,399 a change of \$5,045,316 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	\$ 35,580	\$ 32,675	\$ 2,956	\$ 2,472	\$ 38,536	\$ 35,147
Capital assets	<u>88,517</u>	<u>85,270</u>	<u>11,529</u>	<u>10,905</u>	<u>100,046</u>	<u>96,175</u>
Total assets	124,097	117,945	14,485	13,377	138,582	131,322
Long-term liabilities outstanding	36,031	29,744	3,568	2,307	39,599	32,051
Other liabilities	<u>5,302</u>	<u>4,135</u>	<u>446</u>	<u>275</u>	<u>5,748</u>	<u>4,410</u>
Total liabilities	41,333	33,879	4,014	2,582	45,347	36,461
Net position:						
Net investment in capital assets	70,949	67,721	9,760	9,934	80,709	77,655
Restricted	9,499	11,065	-	-	9,499	11,065
Unrestricted	<u>2,316</u>	<u>5,280</u>	<u>711</u>	<u>861</u>	<u>3,027</u>	<u>6,141</u>
Total net position	<u>\$ 82,764</u>	<u>\$ 84,066</u>	<u>\$ 10,471</u>	<u>\$ 10,795</u>	<u>\$ 93,235</u>	<u>\$ 94,861</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,806	\$ 3,606	\$ 1,836	\$ 1,809	\$ 5,642	\$ 5,415
Operating grants	10,712	10,482	-	-	10,712	10,482
Capital grants and contributions	406	583	-	-	406	583
General revenues:						
Property taxes	37,432	36,295	-	-	37,432	36,295
Excises	1,996	1,914	-	-	1,996	1,914
Penalties and interest on taxes	101	154	-	-	101	154
Grants and contributions not restricted to specific programs	1,141	1,006	-	-	1,141	1,006
Investment income	303	244	-	-	303	244
Other	605	376	-	-	605	376
Total revenues	<u>56,502</u>	<u>54,660</u>	<u>1,836</u>	<u>1,809</u>	<u>58,338</u>	<u>56,469</u>
Expenses:						
General government	2,706	2,185	-	-	2,706	2,185
Public safety	5,445	5,046	-	-	5,445	5,046
Education	33,342	31,865	-	-	33,342	31,865
Public works	2,979	2,259	-	-	2,979	2,259
Human services	1,167	1,011	-	-	1,167	1,011
Culture and recreation	902	995	-	-	902	995
Employee benefits	9,400	9,189	-	-	9,400	9,189
Interest on long-term debt	769	865	-	-	769	865
Intergovernmental	1,186	1,129	-	-	1,186	1,129
Water	-	-	1,777	1,824	1,777	1,824
Total expenses	<u>57,896</u>	<u>54,544</u>	<u>1,777</u>	<u>1,824</u>	<u>59,673</u>	<u>56,368</u>
Change in net position before transfers	(1,394)	116	59	(15)	(1,335)	101
Transfers in (out)	<u>92</u>	<u>(218)</u>	<u>(384)</u>	<u>(170)</u>	<u>(292)</u>	<u>(388)</u>
Change in net position	(1,302)	(102)	(325)	(185)	(1,627)	(287)
Net position - beginning of year	<u>84,066</u>	<u>84,168</u>	<u>10,795</u>	<u>10,980</u>	<u>94,861</u>	<u>95,148</u>
Net position - end of year	<u>\$ 82,764</u>	<u>\$ 84,066</u>	<u>\$ 10,470</u>	<u>\$ 10,795</u>	<u>\$ 93,234</u>	<u>\$ 94,861</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 \$93,235,009, a change of \$(1,626,732) from the prior year.

The largest portion of net position \$80,708,982 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 \$9,498,608 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$3,027,419 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,302,102). Key elements of this change are as follows:

General fund operating results	\$ 58,209
Community preservation fund operating results - accrual basis	1,393,399
Police station operating results - accrual basis	(219,701)
Nonmajor funds operating results - accrual basis	501,507
Excess depreciation over principal maturities, a budgeted expense	(506,096)
Other post employment benefits liability	(2,369,075)
Other GAAP accruals	<u>(160,345)</u>
Total	<u>\$ (1,302,102)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(324,630).

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$25,299,241 a change of \$2,451,653 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 58,209
Community preservation fund operating results	(1,677,101)
Police station operating results	3,196,476
Nonmajor funds operating results	<u>874,069</u>
Total	<u>\$ 2,451,653</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 \$4,848,692, while total fund balance was \$10,090,407. 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	\$ 4,848,692	\$ 5,198,525 *	\$ (349,833)	9.5%
Total fund balance	\$ 10,090,407	\$ 10,032,198	\$ 58,209	19.8%

* The prior year unassigned fund balance has been adjusted to include general stabilization funds

The total fund balance of the general fund changed by \$58,209 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 1,353,485
Budgetary appropriation surplus	642,004
Excess tax collections over budget	208,352
Excess of current year encumbered appropriations to be spent in subsequent year over prior year encumbrances spent in the current year	289,067
Use of free cash	(1,948,345)
Use of overlay surplus	(326,000)
Use of reserve for excluded debt	(119,986)
Other timing issues	(190,000)
Increase in stabilization fund balance	<u>149,632</u>
Total	<u>\$ 58,209</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
Stabilization Fund	\$ 1,731,191	\$ 1,727,608	\$ 3,583
Debt Service Stabilization Fund	<u>800,773</u>	<u>654,724</u>	<u>146,049</u>
Total	<u>\$ 2,531,964</u>	<u>\$ 2,382,332</u>	<u>\$ 149,632</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 \$710,838, a change of \$(150,428) 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 the 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 \$100,044,686 (net of accumulated depreciation), a change of \$3,869,667 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:

- Police station construction of \$1,593,823
- Athletic fields rehabilitation and construction of \$1,573,949
- Purchase of Simon Hill land for \$600,898
- Purchase of Masthead Lane Extension land for \$271,015

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 \$24,308,399, 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 Norwell'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 Finance Director
Town of Norwell
345 Main Street
Norwell, Massachusetts 02061

TOWN OF NORWELL, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 25,114,113	\$ 2,297,862	\$ 27,411,975
Investments	2,458,675	-	2,458,675
Receivables, net of allowance for uncollectibles:			
Property taxes	656,473	-	656,473
Excises	81,926	-	81,926
Departmental and other	173,665	-	173,665
User fees	-	658,041	658,041
Intergovernmental	152,368	-	152,368
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,011,080	-	1,011,080
Betterments not yet due	23,757	-	23,757
Intergovernmental	5,909,228	-	5,909,228
Capital Assets:			
Land and construction in progress	32,226,302	442,751	32,669,053
Other capital assets, net of accumulated depreciation	<u>56,289,254</u>	<u>11,086,379</u>	<u>67,375,633</u>
TOTAL ASSETS	124,096,841	14,485,033	138,581,874
LIABILITIES			
Current:			
Warrants payable	1,449,082	169,973	1,619,055
Accrued liabilities	190,415	16,725	207,140
Tax refunds payable	793,504	-	793,504
Other current liabilities	392,741	-	392,741
Current portion of long-term liabilities:			
Bonds payable	2,364,275	255,000	2,619,275
Compensated absences	111,685	4,356	116,041
Noncurrent:			
Bonds payable, net of current portion	19,774,124	1,915,000	21,689,124
Compensated absences, net of current portion	2,122,023	82,762	2,204,785
Accrued other postemployment benefits	<u>14,134,680</u>	<u>1,570,520</u>	<u>15,705,200</u>
TOTAL LIABILITIES	41,332,529	4,014,336	45,346,865
NET POSITION			
Net investment in capital assets	70,949,123	9,759,859	80,708,982
Restricted for:			
Grants and other statutory restrictions	8,224,414	-	8,224,414
Permanent funds:			
Nonexpendable	378,092	-	378,092
Expendable	896,102	-	896,102
Unrestricted	<u>2,316,581</u>	<u>710,838</u>	<u>3,027,419</u>
TOTAL NET POSITION	\$ <u>82,764,312</u>	\$ <u>10,470,697</u>	\$ <u>93,235,009</u>

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

TOWN OF NORWELL, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 2,705,467	\$ 455,525	\$ 736,912	\$ -	\$ (1,513,030)	\$ -	\$ (1,513,030)
Public safety	5,445,348	1,372,358	16,105	-	(4,056,885)	-	(4,056,885)
Education	33,342,133	1,591,554	9,919,201	-	(21,831,378)	-	(21,831,378)
Public works	2,979,230	23,701	-	406,197	(2,549,332)	-	(2,549,332)
Health and human services	1,166,852	95,625	26,266	-	(1,044,961)	-	(1,044,961)
Culture and recreation	902,324	267,222	13,721	-	(621,381)	-	(621,381)
Employee benefits	9,400,253	-	-	-	(9,400,253)	-	(9,400,253)
Interest	768,969	-	-	-	(768,969)	-	(768,969)
Intergovernmental	1,186,229	-	-	-	(1,186,229)	-	(1,186,229)
Total Governmental Activities	57,896,805	3,805,985	10,712,205	406,197	(42,972,418)	-	(42,972,418)
Business-Type Activities:							
Water services	1,776,704	1,836,014	-	-	-	59,310	59,310
Total Business-Type Activities	1,776,704	1,836,014	-	-	-	59,310	59,310
Total	\$ 59,673,509	\$ 5,641,999	\$ 10,712,205	\$ 406,197	(42,972,418)	59,310	(42,913,108)
General Revenues:							
Property taxes					37,432,458	-	37,432,458
Excises					1,995,931	-	1,995,931
Penalties, interest and other taxes					101,053	-	101,053
Grants and contributions not restricted to specific programs					1,141,390	-	1,141,390
Investment income					302,507	-	302,507
Miscellaneous					604,748	210	604,958
Transfers, net					92,229	(384,150)	(291,921)
Total general revenues and transfers					41,670,316	(383,940)	41,286,376
Change in Net Position					(1,302,102)	(324,630)	(1,626,732)
Net Position:							
Beginning of year					84,066,414	10,795,327	94,861,741
End of year					\$ 82,764,312	\$ 10,470,697	\$ 93,235,009

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

TOWN OF NORWELL, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 11,799,811	\$ 5,593,705	\$ 3,882,901	\$ 3,837,696	\$ 25,114,113
Investments	-	-	-	2,458,675	2,458,675
Receivables:					
Property taxes	1,858,758	-	-	-	1,858,758
Excises	142,047	-	-	-	142,047
Departmental and other	181,425	15,156	-	-	196,581
Intergovernmental	2,087	-	-	150,281	152,368
Betterments not yet due	-	-	-	23,757	23,757
TOTAL ASSETS	<u>\$ 13,984,128</u>	<u>\$ 5,608,861</u>	<u>\$ 3,882,901</u>	<u>\$ 6,470,409</u>	<u>\$ 29,946,299</u>
LIABILITIES					
Warrants payable	\$ 844,207	\$ 43,374	\$ 466,724	\$ 94,777	\$ 1,449,082
Tax refunds payable	793,504	-	-	-	793,504
Prepaid user fees	-	-	-	109,549	109,549
Other liabilities	283,192	-	-	-	283,192
TOTAL LIABILITIES	1,920,903	43,374	466,724	204,326	2,635,327
DEFERRED INFLOWS OF RESOURCES	1,972,818	15,156	-	23,757	2,011,731
FUND BALANCES					
Nonspendable	-	-	-	378,092	378,092
Restricted	1,096,866	-	3,416,177	5,963,061	10,476,104
Committed	2,316,942	5,550,331	-	-	7,867,273
Assigned	1,827,907	-	-	-	1,827,907
Unassigned	4,848,692	-	-	(98,827)	4,749,865
TOTAL FUND BALANCES	<u>10,090,407</u>	<u>5,550,331</u>	<u>3,416,177</u>	<u>6,242,326</u>	<u>25,299,241</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 13,984,128</u>	<u>\$ 5,608,861</u>	<u>\$ 3,882,901</u>	<u>\$ 6,470,409</u>	<u>\$ 29,946,299</u>

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

TOWN OF NORWELL, 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	\$ 25,299,241
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	88,515,556
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,737,491
• Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	5,909,228
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(190,417)
• 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>(38,506,787)</u>
Net position of governmental activities	<u>\$ 82,764,312</u>

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

TOWN OF NORWELL, 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 Fund</u>	<u>Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 36,158,256	\$ 895,801	\$ -	\$ -	\$ 37,054,057
Excises	2,044,029	-	-	-	2,044,029
Penalties, interest and other taxes	101,053	-	-	-	101,053
Charges for services	1,134,247	-	-	1,849,444	2,983,691
Intergovernmental	10,622,619	549,153	-	1,582,452	12,754,224
Licenses and permits	758,958	-	-	-	758,958
Fines and forfeitures	56,820	-	-	-	56,820
Investment income	56,427	53,431	-	192,650	302,508
Miscellaneous	<u>523,679</u>	<u>-</u>	<u>-</u>	<u>243,548</u>	<u>767,227</u>
Total Revenues	51,456,088	1,498,385	-	3,868,094	56,822,567
Expenditures:					
Current:					
General government	1,801,000	3,388,636	-	456,010	5,645,646
Public safety	5,101,809	-	1,813,524	5,670	6,921,003
Education	28,856,949	-	-	2,969,375	31,826,324
Public works	2,508,982	-	-	558,071	3,067,053
Health and human services	1,120,771	-	-	31,160	1,151,931
Culture and recreation	653,214	-	-	305,489	958,703
Employee benefits	7,031,178	-	-	-	7,031,178
Debt service	2,739,632	-	-	7,444	2,747,076
Intergovernmental	<u>1,186,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,186,229</u>
Total Expenditures	<u>50,999,764</u>	<u>3,388,636</u>	<u>1,813,524</u>	<u>4,333,219</u>	<u>60,535,143</u>
Excess (deficiency) of revenues over expenditures	456,324	(1,890,251)	(1,813,524)	(465,125)	(3,712,576)
Other Financing Sources (Uses):					
Proceeds of bonds	-	-	5,010,000	1,062,000	6,072,000
Transfers in	182,806	313,150	-	290,000	785,956
Transfers out	<u>(580,921)</u>	<u>(100,000)</u>	<u>-</u>	<u>(12,806)</u>	<u>(693,727)</u>
Total Other Financing Sources (Uses)	<u>(398,115)</u>	<u>213,150</u>	<u>5,010,000</u>	<u>1,339,194</u>	<u>6,164,229</u>
Change in fund balance	58,209	(1,677,101)	3,196,476	874,069	2,451,653
Fund Equity, at Beginning of Year, as restated	<u>10,032,198</u>	<u>7,227,432</u>	<u>219,701</u>	<u>5,368,257</u>	<u>22,847,588</u>
Fund Equity, at End of Year	<u>\$ 10,090,407</u>	<u>\$ 5,550,331</u>	<u>\$ 3,416,177</u>	<u>\$ 6,242,326</u>	<u>\$ 25,299,241</u>

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

TOWN OF NORWELL, 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	\$ 2,451,653																		
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">5,842,593</td> </tr> <tr> <td>Capital dispositions</td> <td style="text-align: right;">(4,888)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,592,780)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">341,374</td> </tr> </table> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(656,581)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(6,072,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,086,684</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(108,370)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(2,589,787)</u></td> </tr> </table> 		Capital outlay purchases	5,842,593	Capital dispositions	(4,888)	Depreciation	(2,592,780)		341,374		(656,581)	Issuance of debt	(6,072,000)	Repayments of debt	2,086,684		(108,370)		<u>(2,589,787)</u>
Capital outlay purchases	5,842,593																		
Capital dispositions	(4,888)																		
Depreciation	(2,592,780)																		
	341,374																		
	(656,581)																		
Issuance of debt	(6,072,000)																		
Repayments of debt	2,086,684																		
	(108,370)																		
	<u>(2,589,787)</u>																		
Change in net position of governmental activities	\$ <u>(1,302,102)</u>																		

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

TOWN OF NORWELL, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 35,949,904	\$ 35,949,904	\$ 35,949,904	\$ -
Excises	1,452,000	1,452,000	2,044,029	592,029
Penalties, interest and other taxes	123,200	123,200	101,053	(22,147)
Charges for services	986,300	986,300	1,134,247	147,947
Intergovernmental	4,920,680	4,920,680	5,067,866	147,186
Licenses and permits	607,000	607,000	758,958	151,958
Fines and forfeits	44,520	44,520	56,820	12,300
Investment income	43,800	43,800	51,795	7,995
Miscellaneous	15,541	15,541	331,758	316,217
Transfers in	402,606	402,606	402,606	-
Fund balance reserved for excluded debt	119,986	119,986	119,986	-
Use of free cash	1,948,345	1,948,345	1,948,345	-
Use of overlay surplus	326,000	326,000	326,000	-
Total Revenues and Other Sources	46,939,882	46,939,882	48,293,367	1,353,485
Expenditures and Other Uses:				
General government	2,044,059	2,044,059	1,876,727	167,332
Public safety	5,241,882	5,241,882	5,095,740	146,142
Education	23,385,985	23,385,985	23,358,503	27,482
Public works	2,751,356	2,751,356	2,607,248	144,108
Health and human services	1,164,245	1,164,245	1,131,084	33,161
Culture and recreation	729,170	729,170	728,620	550
Debt service	2,959,434	2,959,434	2,959,432	2
Intergovernmental	1,203,232	1,203,232	1,186,229	17,003
Employee benefits	7,116,519	7,116,519	7,010,295	106,224
Transfer out	344,000	344,000	344,000	-
Total Expenditures and Other Uses	46,939,882	46,939,882	46,297,878	642,004
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,995,489	\$ 1,995,489

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

TOWN OF NORWELL, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities <u>Enterprise Funds</u> Water <u>Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 2,297,862
User fees, net of allowance for uncollectibles	<u>658,041</u>
Total current assets	2,955,903
Noncurrent:	
Capital assets	
Land and construction in progress	442,751
Other capital assets, net of accumulated depreciation	<u>11,086,379</u>
Total noncurrent assets	<u>11,529,130</u>
TOTAL ASSETS	14,485,033
LIABILITIES	
Current:	
Warrants payable	169,973
Accrued liabilities	16,725
Bonds payable	255,000
Compensated absences	<u>4,356</u>
Total current liabilities	446,054
Noncurrent:	
Bonds payable, net of current portion	1,915,000
Compensated absences, net of current portion	82,762
Accrued other postemployment benefits	<u>1,570,520</u>
Total noncurrent liabilities	<u>3,568,282</u>
TOTAL LIABILITIES	4,014,336
NET POSITION	
Net investment in capital assets	9,759,859
Unrestricted	<u>710,838</u>
TOTAL NET POSITION	\$ <u><u>10,470,697</u></u>

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

TOWN OF NORWELL, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds
	Water Fund
Operating Revenues:	
Charges for services	\$ 1,836,014
Other	<u>210</u>
Total Operating Revenues	1,836,224
Operating Expenses:	
Operating expenses	1,377,302
Depreciation	<u>364,202</u>
Total Operating Expenses	<u>1,741,504</u>
Operating Income	94,720
Nonoperating Revenues (Expenses):	
Interest expense	<u>(35,200)</u>
Income Before Transfers	59,520
Transfers:	
Transfers out	<u>(384,150)</u>
Change in Net Position	(324,630)
Net Position at Beginning of Year	<u>10,795,327</u>
Net Position at End of Year	<u><u>\$ 10,470,697</u></u>

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

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

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 1,822,244
Payments to vendors and employees	<u>(1,004,917)</u>
Net Cash Provided By Operating Activities	817,327
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(384,150)</u>
Net Cash (Used For) Noncapital Financing Activities	(384,150)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	1,250,000
Acquisition and construction of capital assets	(988,944)
Principal payments on bonds and notes	(190,000)
Interest expense	<u>(35,200)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>35,856</u>
Net Change in Cash and Short-Term Investments	469,033
Cash and Short-Term Investments, Beginning of Year	<u>1,828,829</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 2,297,862</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 94,720
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	364,202
Changes in assets and liabilities:	
User fees	(13,980)
Warrants and accounts payable	100,174
Accrued liabilities	<u>272,211</u>
Net Cash Provided By Operating Activities	<u><u>\$ 817,327</u></u>

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

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

	Private Purpose Trust <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 16,816	\$ -	\$ 500,974
Investments	92,542	1,180,017	-
Accounts receivable	<u>-</u>	<u>-</u>	<u>30,133</u>
TOTAL ASSETS	109,358	1,180,017	531,107
 <u>LIABILITIES</u>			
Accounts payable	-	-	14,179
Other liabilities	-	-	486,795
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>30,133</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>-</u>	<u>-</u>	<u>531,107</u>
 <u>NET POSITION</u>			
TOTAL NET POSITION HELD IN TRUST	<u>\$ 109,358</u>	<u>\$ 1,180,017</u>	<u>\$ -</u>

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

TOWN OF NORWELL, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose <u>Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>
Additions:		
Contributions	\$ 13,724	\$ -
Investment income	7,320	111,950
Transfers in	<u>-</u>	<u>291,921</u>
Total additions	21,044	403,871
Deductions:		
Education	<u>13,974</u>	<u>-</u>
Total deductions	<u>13,974</u>	<u>-</u>
Net (decrease)	7,070	403,871
Net position:		
Beginning of year	<u>102,288</u>	<u>776,146</u>
End of year	<u>\$ 109,358</u>	<u>\$ 1,180,017</u>

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

TOWN OF NORWELL, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Community Preservation Fund accounts for the acquisition, creation, and preservation of open space, historic resources, and community housing.
- The *Police Station Fund* accounts for the design, construction, and furnishing of an addition to the Fire Station that will also serve as the Police Station.

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 non-operating revenues and expenses.

The government reports the following major proprietary funds:

- Water operations

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guar-

anteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$18,400.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$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
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary

fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

K. *Use of Estimates*

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

2. **Stewardship, Compliance, and Accountability**

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

Formal budgetary integration is employed as a management control device during the year for the General Fund. 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 fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 51,456,088	\$ 50,999,764
Other financing sources/uses (GAAP basis)	<u>182,806</u>	<u>580,921</u>
Subtotal (GAAP Basis)	51,638,894	51,580,685
Adjust tax revenue to accrual basis	(208,352)	-
To reverse expenditures of prior year appropriation carryforwards	-	(1,420,510)
To book current year appropriation carryforwards	-	1,709,577
To remove unbudgeted stabilization fund	(4,632)	145,000
To record use of designated fund balance	119,986	-
To record use of free cash	1,948,345	-
To record use of overlay surplus	326,000	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,554,753)	(5,554,753)
Other sources/uses	<u>27,879</u>	<u>(162,121)</u>
Budgetary basis	<u>\$ 48,293,367</u>	<u>\$ 46,297,878</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2014:

SPED IDEA 94-142	\$ (98,034)
SPED Early Childhood	<u>(793)</u>
Total special revenue funds	\$ <u><u>(98,827)</u></u>

The deficits in these funds will be eliminated through future grant reimbursements.

3. **Cash and Short-Term Investments**

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

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

As of June 30, 2014, \$6,483,784 of the Town's bank balance of \$28,823,879 was exposed to custodial credit risk as uninsured or uncollateralized.

4. **Investments**

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>A</u>	<u>BAA</u>
Corporate bonds	\$ 204	N/A	\$ -	\$ -	\$ 155	\$ 49
Equities	761	N/A	761	-	-	-
Mutual funds	1,372	N/A	1,372	-	-	-
Federal agency securities	<u>1,394</u>	N/A	<u>-</u>	<u>1,394</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 3,731</u>		<u>\$ 2,133</u>	<u>\$ 1,394</u>	<u>\$ 155</u>	<u>\$ 49</u>

B. Custodial Credit Risk

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

All of the Town's investments of \$3,731,234 are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town's name.

C. Concentration of Credit Risk

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

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Federal Home Loan Bank	\$ 222,705	6%
Federal Home Loan Mortgage	858,741	23%
Federal National Mortgage	<u>203,635</u>	5%
Total	<u>\$ 1,285,081</u>	

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value

to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 204	\$ -	\$ 204	\$ -
Federal agency securities	<u>1,394</u>	<u>101</u>	<u>1,146</u>	<u>147</u>
Total	<u>\$ 1,598</u>	<u>\$ 101</u>	<u>\$ 1,350</u>	<u>\$ 147</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

5. Taxes Receivable

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

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

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

Real Estate		
2014	\$ 612	
2013	16	
Prior	<u>2</u>	
		630
Personal Property		
2014	15	
2013	6	
2012	3	
2011	2	
2010	<u>4</u>	
		30
Tax Liens		1,123
Deferred Taxes		<u>76</u>
Total		<u>\$ 1,859</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 191
Excises	\$ 60
Other	\$ 23

7. Intergovernmental Receivables

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

8. Capital Assets

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 71,041	\$ 1,706	\$ -	\$ 72,747
Machinery, equipment, and furnishings	7,556	503	(105)	7,954
Infrastructure	<u>22,058</u>	<u>784</u>	<u>-</u>	<u>22,842</u>
Total capital assets, being depreciated	100,655	2,993	(105)	103,543
Less accumulated depreciation for:				
Buildings and improvements	(23,629)	(1,439)	-	(25,068)
Machinery, equipment, and furnishings	(5,755)	(480)	100	(6,135)
Infrastructure	<u>(15,377)</u>	<u>(674)</u>	<u>-</u>	<u>(16,051)</u>
Total accumulated depreciation	<u>(44,761)</u>	<u>(2,593)</u>	<u>100</u>	<u>(47,254)</u>
Total capital assets, being depreciated, net	55,894	400	(5)	56,289
Capital assets, not being depreciated:				
Land	29,134	1,226	-	30,360
Construction in progress	<u>242</u>	<u>1,626</u>	<u>-</u>	<u>1,868</u>
Total capital assets, not being depreciated	<u>29,376</u>	<u>2,852</u>	<u>-</u>	<u>32,228</u>
Governmental activities capital assets, net	<u>\$ 85,270</u>	<u>\$ 3,252</u>	<u>\$ (5)</u>	<u>\$ 88,517</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,571	\$ -	\$ -	\$ 7,571
Machinery, equipment, and furnishings	1,683	-	-	1,683
Infrastructure	<u>10,101</u>	<u>989</u>	<u>-</u>	<u>11,090</u>
Total capital assets, being depreciated	19,355	989	-	20,344
Less accumulated depreciation for:				
Buildings and improvements	(3,034)	(156)	-	(3,190)
Machinery, equipment, and furnishings	(1,468)	(38)	-	(1,506)
Infrastructure	<u>(4,391)</u>	<u>(171)</u>	<u>-</u>	<u>(4,562)</u>
Total accumulated depreciation	<u>(8,893)</u>	<u>(365)</u>	<u>-</u>	<u>(9,258)</u>
Total capital assets, being depreciated, net	10,462	624	-	11,086
Capital assets, not being depreciated:				
Land	<u>443</u>	<u>-</u>	<u>-</u>	<u>443</u>
Total capital assets, not being depreciated	<u>443</u>	<u>-</u>	<u>-</u>	<u>443</u>
Business-type activities capital assets, net	<u>\$ 10,905</u>	<u>\$ 624</u>	<u>\$ -</u>	<u>\$ 11,529</u>

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

Governmental Activities:	
General government	\$ 121
Public safety	192
Education	1,486
Public works	720
Health and human services	14
Culture and recreation	<u>60</u>
Total depreciation expense - governmental activities	\$ <u>2,593</u>
Business-Type Activities:	
Water	\$ <u>365</u>
Total depreciation expense - business-type activities	\$ <u>365</u>

9. Warrants Payable

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

10. Tax Refunds Payable

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

11. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/14</u>
School	11/15/22	3.54%	\$ 135,000
School	11/15/22	5.70%	7,785,000
MWPAT	08/01/22	0.00%	27,790
School	02/15/25	4.00%	545,000
Town Hall remodeling	04/10/17	4.95%	55,000
Fire truck	04/10/12	4.95%	90,000
Stormwater	07/15/17	2.00%	122,990
Septic	07/15/27	0.00%	48,880
Council on Aging building	10/01/20	1.50%	210,000
Public way	10/01/15	1.50%	400,000
Refunding	04/15/25	1.25%	6,630,000
MWPAT 97-1051-B	07/15/33	0.00%	16,739
General Obligation Bond of 2014	03/15/34	2.76%	<u>6,072,000</u>
Total Governmental Activities:			<u>\$ 22,138,399</u>

<u>Business-Type Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/14</u>
Pumping station	10/15/16	4.00%	\$ 215,000
Water engineering	10/15/16	4.00%	75,000
Water	10/01/20	1.50%	630,000
General Obligation Bond of 2014	03/15/34	2.76%	<u>1,250,000</u>
Total Business-Type Activities:			<u>\$ 2,170,000</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	\$ 2,364,275	\$ 809,025	\$ 3,173,300
2016	2,367,878	714,888	3,082,766
2017	2,148,493	630,062	2,778,555
2018	2,084,120	547,881	2,632,001
2019	1,877,444	465,752	2,343,196
2020- 2024	7,779,292	1,236,334	9,015,626
2025 - 2029	2,013,373	413,454	2,426,827
Thereafter	<u>1,503,524</u>	<u>156,750</u>	<u>1,660,274</u>
Total	<u>\$ 22,138,399</u>	<u>\$ 4,974,146</u>	<u>\$ 27,112,545</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 255,000	\$ 63,392	\$ 318,392
2016	255,000	57,000	312,000
2017	245,000	49,338	294,338
2018	155,000	43,563	198,563
2019	155,000	38,825	193,825
2020 - 2023	505,000	134,400	639,400
2025-2029	300,000	80,850	380,850
Thereafter	<u>300,000</u>	<u>31,350</u>	<u>331,350</u>
Total	\$ <u>2,170,000</u>	\$ <u>498,718</u>	\$ <u>2,668,718</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	\$ 18,153	\$ 6,072	\$ (2,087)	\$ 22,138	\$ (2,364)	\$ 19,774
Other:						
Accrued employee benefits	2,013	221	-	2,234	(112)	2,122
Accrued other post-employment benefits	<u>11,766</u>	<u>2,369</u>	<u>-</u>	<u>14,135</u>	<u>-</u>	<u>14,135</u>
Totals	\$ <u>31,932</u>	\$ <u>8,662</u>	\$ <u>(2,087)</u>	\$ <u>38,507</u>	\$ <u>(2,476)</u>	\$ <u>36,031</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,110	\$ 1,250	\$ (190)	\$ 2,170	\$ (255)	\$ 1,915
Other:						
Accrued employee benefits	84	3	-	87	(4)	83
Accrued other post-employment benefits	<u>1,307</u>	<u>263</u>	<u>-</u>	<u>1,570</u>	<u>-</u>	<u>1,570</u>
Totals	\$ <u>2,501</u>	\$ <u>1,516</u>	\$ <u>(190)</u>	\$ <u>3,827</u>	\$ <u>(259)</u>	\$ <u>3,568</u>

12. 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>Governmental Funds</u>			<u>Fiduciary Funds</u>
	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Nonmajor</u>	<u>Agency</u>
Unearned revenue	\$ 1,972,818	\$ 15,156	\$ 23,757	\$ 30,133

13. **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.

14. **Governmental Funds - Balances**

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, stabilization funds (now reported as part of the general fund per GASB 54), 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	CPA Fund	Police Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 378,092	\$ 378,092
Total Nonspendable	-	-	-	378,092	378,092
Restricted					
Bonded projects	-	-	3,416,177	1,155,788	4,571,965
Special revenue funds	-	-	-	3,911,172	3,911,172
Reserve for excluded debt	1,096,866	-	-	-	1,096,866
Expendable permanent funds	-	-	-	896,101	896,101
Total Restricted	1,096,866	-	3,416,177	5,963,061	10,476,104
Committed					
For continued appropriations:					
General government	418,679	-	-	-	418,679
Public safety	18,933	-	-	-	18,933
Education	57,832	-	-	-	57,832
Public works	935,412	-	-	-	935,412
Health and human services	10,313	-	-	-	10,313
Culture and recreation	75,000	-	-	-	75,000
Debt service stabilization	800,773	-	-	-	800,773
Community preservation	-	5,550,331	-	-	5,550,331
Total Committed	2,316,942	5,550,331	-	-	7,867,273
Assigned					
For encumbrances:					
General government	16,170	-	-	-	16,170
Education	97,694	-	-	-	97,694
Public works	20	-	-	-	20
Culture and recreation	406	-	-	-	406
Employee benefits	79,117	-	-	-	79,117
Reserved for expenditures	1,634,500	-	-	-	1,634,500
Total Assigned	1,827,907	-	-	-	1,827,907
Unassigned					
Special revenue	-	-	-	(98,827)	(98,827)
General stabilization	1,731,191	-	-	-	1,731,191
General fund	3,117,501	-	-	-	3,117,501
Total Unassigned	4,848,692	-	-	(98,827)	4,749,865
Total Fund Balance	\$ 10,090,407	\$ 5,550,331	\$ 3,416,177	\$ 6,242,326	\$ 25,299,241

15. 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	\$ 4,848,692
Stabilization fund	(1,731,191)
Tax refund estimate	<u>793,504</u>
Statutory (UMAS) Balance	\$ <u><u>3,911,005</u></u>

16. Transfers

Transfers between Governmental Activities and Business-type Activities do not offset by \$291,921. This is due to transfers between Governmental Activities and the Other Post-employment Benefits Trust Fund.

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, 2012 the actuarial valuation date, approximately 289 retirees and 472 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 pay a variable portion of their health plan costs, which varies by plan. The Town contributes the remainder of the health plan costs on a partial prefunding 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, 2012.

Annual Required Contribution (ARC)	\$ 4,208,496
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	4,208,496
Contributions made	<hr/> (1,576,190)
	<hr/>
Increase in net OPEB obligation	2,632,306
Net OPEB obligation - beginning of year	<hr/> 13,072,894
Net OPEB obligation - end of year	<hr/> <hr/> \$ 15,705,200

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	\$ 4,208,496	37%	\$ 15,705,200
2013	\$ 4,074,599	37%	\$ 13,072,894
2012	\$ 4,495,694	49%	\$ 10,495,557

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, 2012, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 52,617,027
Less actuarial value of plan assets	<u>(345,770)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 52,271,257</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.7%</u>
Covered payroll (active plan members)	<u>\$ 24,418,810</u>
UAAL as a percentage of covered payroll	<u>214%</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, 2012 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 7.5%, which decreases to a 4.5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

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 Plymouth County Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, Massachusetts 02360.

A. Plan Description

The Town contributes to the Plymouth County Retirement System 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 Plymouth County Retirement System Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, Massachusetts 02360.

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 \$1,879,432, \$1,805,534, and \$1,586,376, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The 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 \$5,554,753 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)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
Nonmajor Governmental Funds	\$ 5,587,958	\$ (219,701)	\$ 5,368,257
Police Station Fund	<u>-</u>	<u>219,701</u>	<u>219,701</u>
Total	<u>\$ 5,587,958</u>	<u>\$ -</u>	<u>\$ 5,587,958</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 Plymouth County Retirement System's actuarially accrued liability.

**TOWN OF NORWELL, 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 Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/12	\$ 345,770	\$ 52,617,027	\$ 52,271,257	0.7%	\$ 24,418,810	214.1%
06/30/10	\$ -	\$ 58,728,875	\$ 58,728,875	0.0%	\$ 23,444,866	250.5%
07/01/07	\$ -	\$ 60,597,583	\$ 60,597,583	0.0%	\$ 19,176,783	316.0%

**PLYMOUTH COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/11	\$ 666,730,812	\$ 1,187,447,414	\$ 520,716,602	56.1%	\$ 228,289,638	228.1%
01/01/10	\$ 673,709,456	\$ 1,132,847,379	\$ 459,137,923	59.5%	\$ 227,507,647	201.8%
01/01/09	\$ 579,877,224	\$ 1,159,210,636	\$ 579,333,412	50.0%	\$ 264,541,078	219.0%
01/01/08	\$ 683,819,938	\$ 1,056,020,215	\$ 372,200,277	64.8%	\$ 252,682,832	147.3%

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

Plan Year End	System Wide			Town of Norwell	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 54,966,177	\$ 54,966,177	100%	\$ 1,879,432	3.4%
12/31/12	\$ 52,815,432	\$ 52,815,432	100%	\$ 1,805,534	3.4%
12/31/11	\$ 46,850,764	\$ 46,850,764	100%	\$ 1,586,376	3.4%
12/31/10	\$ 48,986,967	\$ 48,986,967	100%	\$ 1,542,973	3.1%

See Independent Auditors' Report.