

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2013

Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended June 30, 2013

# TOWN OF WEST NEWBURY, MASSACHUSETTS

## TABLE OF CONTENTS YEAR ENDED JUNE 30, 2013

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	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-10
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements	22-42
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedules of Funding Progress –	
Pension System and Other Post-Employment Benefits	43
Schedule of Contribution Funding –	
Pension System and Other Post-Employment Benefits	43
Schedule of Revenues, Expenditures and Changes in Fund Balances –	
Budget and Actual – General Fund	44
Notes to Required Supplementary Information	45
<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>	46-47



## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of West Newbury, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of West Newbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2013 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.

## **Restatement**

The Town's basic financial statements as of and for the year ended June 30, 2012 were audited by other auditors whose opinion, dated May 1, 2013, on those basic financial statements was unqualified. As discussed in Note V, the Town has restated its fiscal year 2012 basic financial statements during the current year. The other auditors reported on the basic financial statements before this restatement.

## **Change in Accounting Principle**

As described in Note B, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position*. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

Town of West Newbury, Massachusetts  
Page Three

accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.

A handwritten signature in black ink that reads "Roselli, Clark & Associates". The script is cursive and fluid.

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
March 21, 2014

## Management's Discussion and Analysis

As the management of the Town of West Newbury, Massachusetts (the Town) we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$30.1 million (*total net position*). Approximately \$26.4 million represented net position of governmental activities and \$3.7 million represented net position of the business-type activities.
- The government's total net position increased by approximately \$1.5 million or approximately 5.0% year to year. This was due to an increase of \$1.4 million in governmental activities combined with an increase of nearly \$0.1 million in business-type activities. The increase in governmental activities was primarily the result of favorable operating results in the General Fund. The operations of the business-type activities were flat and met expectations.
- The Town's Unassigned Fund Balance reported in the General Fund was approximately \$2.6 million (20.3% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$3.5 million (28.0% of General Fund expenditures). Total fund balances in the Town's Community Preservation Fund were \$1.8 million and in the Town's Combined Nonmajor Governmental Funds; nearly \$2.1 million.
- The Town's total long-term debt decreased by approximately \$0.8 million; nearly all of this decrease related to regular maturities of governmental activities' debt.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, education, debt service, fringe benefits and culture and recreation. The business-type activities of the Town include the water enterprise fund.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

**Governmental Funds** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

The Town maintains a number of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the community preservation fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found after the notes to the financial statements.

**Proprietary Funds** The Town maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the Town's water enterprise fund activities.

**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 statement 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.

The Town's fiduciary funds include Other Postemployment Benefits (OPEB) and Private Purpose Trust Funds.

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

### **Government-wide Financial Analysis**

The condensed statement of net position is as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012 (as restated)	June 30, 2013	June 30, 2012 (as restated)
<b><u>Assets</u></b>						
Current and other assets	\$ 8,477,404	\$ 8,087,762	\$ 947,147	\$ 940,749	\$ 9,424,551	\$ 9,028,511
Capital assets, net	24,098,943	23,910,364	2,927,549	2,891,634	27,026,492	26,801,998
Total assets	32,576,347	31,998,126	3,874,696	3,832,383	36,451,043	35,830,509
<b><u>Liabilities</u></b>						
Long-term liabilities	5,622,514	6,419,018	114,229	124,469	5,736,743	6,543,487
Other liabilities	577,226	594,575	-	2,255	577,226	596,830
Total liabilities	6,199,740	7,013,593	114,229	126,724	6,313,969	7,140,317
<b><u>Net Position</u></b>						
Invested in capital assets, net of related debt	18,777,551	17,827,961	2,819,288	2,771,344	21,596,839	20,599,305
Restricted	3,840,651	4,440,176	-	-	3,840,651	4,440,176
Unrestricted	3,758,405	2,716,396	941,179	934,315	4,699,584	3,650,711
Total Net Position	\$ 26,376,607	\$ 24,984,533	\$ 3,760,467	\$ 3,705,659	\$ 30,137,074	\$ 28,690,192

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$30.1 million (*total net position*).



By far the largest portion (approximately \$21.6 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$3.8 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance (approximately \$4.7 million) represents *unrestricted net position*.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2013	June 30, 2012 (as restated)	June 30, 2013	June 30, 2012 (as restated)	June 30, 2013	June 30, 2012 (as restated)
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 476,538	\$ 340,078	\$ 638,499	\$ 639,746	\$ 1,115,037	\$ 979,824
Operating grants and contributions	153,538	342,051	-	-	153,538	342,051
Capital grants and contributions	347,067	-	33,000	9,000	380,067	9,000
General revenues:						
Property taxes	11,778,484	10,957,131	-	-	11,778,484	10,957,131
Intergovernmental	315,145	313,147	-	-	315,145	313,147
Other	847,834	747,882	4,491	5,598	852,325	753,480
<b>Total Revenues</b>	<b>13,918,606</b>	<b>12,700,289</b>	<b>675,990</b>	<b>654,344</b>	<b>14,594,596</b>	<b>13,354,633</b>
<b><u>Expenses</u></b>						
General government	1,168,492	1,052,244	-	-	1,168,492	1,052,244
Public safety	2,180,508	2,202,929	-	-	2,180,508	2,202,929
Education	6,443,384	5,887,721	-	-	6,443,384	5,887,721
Public works	1,592,450	1,834,605	-	-	1,592,450	1,834,605
Health and human services	590,048	591,633	-	-	590,048	591,633
Culture and recreation	489,288	446,774	-	-	489,288	446,774
Debt service	108,796	207,453	-	-	108,796	207,453
Water	-	-	574,748	545,346	574,748	545,346
<b>Total Expenses</b>	<b>12,572,966</b>	<b>12,223,359</b>	<b>574,748</b>	<b>545,346</b>	<b>13,147,714</b>	<b>12,768,705</b>
Increase in net position before transfers	1,345,640	476,930	101,242	108,998	1,446,882	585,928
<b>Transfers</b>	<b>46,434</b>	<b>46,434</b>	<b>(46,434)</b>	<b>(46,434)</b>	<b>-</b>	<b>-</b>
Increase in net position after transfers	1,392,074	523,364	54,808	62,564	1,446,882	585,928
Net position, beginning of year, as restated	24,984,533	24,461,169	3,705,659	3,643,095	28,690,192	28,104,264
Net position, end of year	<u>\$ 26,376,607</u>	<u>\$ 24,984,533</u>	<u>\$ 3,760,467</u>	<u>\$ 3,705,659</u>	<u>\$ 30,137,074</u>	<u>\$ 28,690,192</u>

**Governmental Activities** - The Town relies significantly on property taxes, which, during 2013, made up approximately 84.6% of total governmental activities revenues, down slightly from 86.2% in the prior year. No other revenues were greater than 10% of total revenues in 2013 or 2012.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 51.3% which was up from the prior year of 48.1%. The increase is a result of an increase in the assessment from the regional school district due to construction on the high school. Public safety expenditures represented 17.3% of total expenditures, which was consistent with the prior year ratio of 18.0%. Public works expenditures represented 12.7% of total expenditures, which was lower when compared to the prior year ratio of 15.0%. This was due to the manner in which related benefit costs were allocated in the current year. No other expense types were greater than 10% of total expenses in 2013 or 2012.

**Business-type Activities** - Major revenue sources consist of revenue from water user charges which represented approximately 100% of total revenues. Water expenses represented 100% of total business-type expenses.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** - The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the general fund was approximately \$2.6 million, while total fund balance reached approximately \$3.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represented approximately 20.3% of total general fund expenditures, while total fund balance represented approximately 28.0% of that same amount.

The Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$7.4 million. In addition to the \$3.5 million in the general fund previously discussed, there were also restricted fund balances in both the Community Preservation Fund and Combined Nonmajor funds of approximately \$3.8 million; the majority of which is restricted.

**Proprietary Funds** - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$3.7 million.

**Fiduciary Funds** - The Town's fiduciary funds include over \$1.4 million for a trust established to account for the Town's OPEB activities. The Town is currently fully funded with respect to its accrued actuarial OPEB liability. In addition, the Town maintains over \$0.3 million in various private purpose activities that are also accounted for within its fiduciary funds.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were insignificant. A budget to actual schedule for the general fund has been provided as required supplementary information.

## **Capital Asset and Debt Administration**

**Capital Assets** - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to approximately \$27.0 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment and reflects an increase of approximately \$0.2 million net of depreciation.

Additional information on the Town capital assets can be found in Note II, Section D. of this report.

**Long-term Debt** - At the end of the current fiscal year, the Town had total debt outstanding of approximately \$5.4 million; approximately \$5.3 million is accounted for as general obligation bonds within the governmental activities and approximately \$0.1 million is outstanding long-term debt recorded within its business-type activities.

- The Town's total long-term debt decreased approximately \$0.8 million during the fiscal year due to regularly scheduled pay downs of principal.

The Town maintained a bond rating of Aa2 as set by Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total equalized valuation. The current debt limitation for the Town is approximately \$37.3 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found Note II, Section F and G of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- Consistent with both State and National work force trends, the region's unemployment rates began to stabilize in 2011 and have continued through 2013. Current unemployment rates are approaching pre-recession levels, and seem to be continuing to improve into fiscal 2014. Massachusetts' unemployment rates continue to trend more favorably than the national rates.
- The Town's real estate tax base is made up of approximately 96.5% residential real estate tax. Its commercial, industrial and personal property taxes make up the remainder of the tax base at 3.5%. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town's housing market has stabilized from the recent downward trend; however, housing prices are still well below their 2005 peaks. The Town anticipates that its housing market will participate ratably when the housing market rebounds. However, the extent, timing or certainty of any material housing rebound can't be reasonably estimated at this time.
- The Town's budget is subsidized by approximately \$0.3 million in State Aid therefore the Town is not at the same level of risk as other communities who are more reliant on State Aid.
- In May 2013, the Town voted an initial general fund appropriation budget for fiscal year 2014 that was in balance. The tax rate was certified December 4, 2013.

The above items were considered when the Town developed its budget for fiscal year 2014.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 381 Main Street, West Newbury, Massachusetts, 01985.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,097,913	\$ 765,144	\$ 7,863,057
Investments	836,405	-	836,405
Receivables (net):			
Property taxes	121,153	-	121,153
User fees	-	179,853	179,853
Departmental and other	257,036	-	257,036
Intergovernmental	6,898	-	6,898
Net OPEB asset	157,999	2,150	160,149
Capital assets, not being depreciated	10,167,267	610,451	10,777,718
Capital assets, net of accumulated depreciation	<u>13,931,676</u>	<u>2,317,098</u>	<u>16,248,774</u>
<b>Total Assets</b>	<u>32,576,347</u>	<u>3,874,696</u>	<u>36,451,043</u>
<b>Liabilities</b>			
Warrants and accounts payable	412,411	-	412,411
Accrued payroll	124,062	-	124,062
Unearned revenue	27,482	-	27,482
Other liabilities	13,271	-	13,271
Noncurrent liabilities:			
Due within one year	805,478	15,013	820,491
Due in more than one year	<u>4,817,036</u>	<u>99,216</u>	<u>4,916,252</u>
<b>Total Liabilities</b>	<u>6,199,740</u>	<u>114,229</u>	<u>6,313,969</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	18,777,551	2,819,288	21,596,839
Restricted:			
Nonexpendable permanent funds	7,500	-	7,500
Community preservation	1,773,405	-	1,773,405
Other purposes	2,059,746	-	2,059,746
Unrestricted	<u>3,758,405</u>	<u>941,179</u>	<u>4,699,584</u>
<b>Total Net Position</b>	<u>\$ 26,376,607</u>	<u>\$ 3,760,467</u>	<u>\$ 30,137,074</u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013**

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	\$ 1,168,492	\$ 118,246	\$ 755	\$ -	\$ (1,049,491)		\$ (1,049,491)
Public safety	2,180,508	207,229	41,311	-	(1,931,968)		(1,931,968)
Education	6,443,384	107,167	87,928	-	(6,248,289)		(6,248,289)
Public works	1,592,450	-	-	218,208	(1,374,242)		(1,374,242)
Health and human services	590,048	2,689	8,772	-	(578,587)		(578,587)
Culture and recreation	489,288	41,207	14,772	128,859	(304,450)		(304,450)
Debt service	108,796	-	-	-	(108,796)		(108,796)
Total governmental activities	12,572,966	476,538	153,538	347,067	(11,595,823)		(11,595,823)
Business-type activities:							
Water	574,748	638,499	-	33,000		\$ 96,751	96,751
Total business-type activities	574,748	638,499	-	33,000		96,751	96,751
Total Primary Government	\$ 13,147,714	\$ 1,115,037	\$ 153,538	\$ 380,067	(11,595,823)	96,751	(11,499,072)
<u>General Revenues:</u>							
Property taxes					11,778,484	-	11,778,484
Motor vehicle and other excise					619,563	-	619,563
Grants and contributions not restricted to specific programs					315,145	-	315,145
Penalties and interest on taxes					58,466	-	58,466
Unrestricted investment income					169,805	4,491	174,296
Transfers (net)					46,434	(46,434)	-
Total general revenues and transfers					12,987,897	(41,943)	12,945,954
Change in Net Position					1,392,074	54,808	1,446,882
<u>Net Position:</u>							
Beginning of year, as restated					24,984,533	3,705,659	28,690,192
End of year					\$ 26,376,607	\$ 3,760,467	\$ 30,137,074

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	Community Preservation Act Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,857,837	\$ 1,988,651	\$ 1,251,425	\$ 7,097,913
Investments	-	-	836,405	836,405
Receivables, net of allowance for uncollectibles:				
Property taxes	118,844	2,309	-	121,153
Departmental and other	174,444	1,248	81,344	257,036
Intergovernmental	-	-	6,898	6,898
<b>Total Assets</b>	<u>\$ 4,151,125</u>	<u>\$ 1,992,208</u>	<u>\$ 2,176,072</u>	<u>\$ 8,319,405</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Warrants and accounts payable	\$ 193,608	\$ 218,803	\$ -	\$ 412,411
Accrued payroll	124,062	-	-	124,062
Unearned revenue	-	-	27,482	27,482
Other liabilities	13,271	-	-	13,271
Deferred revenues	293,288	3,557	88,242	385,087
<b>Total Liabilities</b>	<u>624,229</u>	<u>222,360</u>	<u>115,724</u>	<u>962,313</u>
<b>Fund Balances:</b>				
Nonspendable	-	-	7,500	7,500
Restricted	-	1,769,848	2,052,848	3,822,696
Committed	656,158	-	-	656,158
Assigned	311,692	-	-	311,692
Unassigned	2,559,046	-	-	2,559,046
<b>Total Fund Balances</b>	<u>3,526,896</u>	<u>1,769,848</u>	<u>2,060,348</u>	<u>7,357,092</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,151,125</u>	<u>\$ 1,992,208</u>	<u>\$ 2,176,072</u>	<u>\$ 8,319,405</u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

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<b>Total Governmental Fund Balances</b>	<b>\$ 7,357,092</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,098,943
The Town has a net asset related to other postemployment benefits. This long-term asset is not reported in the fund financial statements.	157,999
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	385,087
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	(5,256,210)
Capital leases payable	(276,392)
Compensated absences	(89,912)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 26,376,607</u></b>

See accompanying notes to basic financial statements.



**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	Community Preservation Act Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 11,454,037	\$ 257,381	\$ -	\$ 11,711,418
Intergovernmental	403,072	128,859	266,359	798,290
Motor vehicle and other excises	570,572	-	-	570,572
Licenses and permits	187,665	-	-	187,665
Departmental and other revenue	78,137	1,921	216,940	296,998
Penalties and interest on taxes	58,466	-	-	58,466
Investment income	41,897	3,931	123,977	169,805
Contributions and donations	-	-	10,585	10,585
<b>Total Revenues</b>	<u>12,793,846</u>	<u>392,092</u>	<u>617,861</u>	<u>13,803,799</u>
<b>Expenditures:</b>				
Current:				
General government	880,291	15,388	15,444	911,123
Public safety	1,502,533	-	44,408	1,546,941
Education	6,193,133	558,313	-	6,751,446
Public works	1,246,278	-	222,613	1,468,891
Health and human services	483,767	-	8,835	492,602
Culture and recreation	301,076	147,937	70,685	519,698
Fringe and pension benefits	981,450	-	-	981,450
State and county tax assessments	132,858	-	-	132,858
Debt service:				
Principal	730,000	-	21,192	751,192
Interest	151,492	-	-	151,492
<b>Total Expenditures</b>	<u>12,602,878</u>	<u>721,638</u>	<u>383,177</u>	<u>13,707,693</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>190,968</u>	<u>(329,546)</u>	<u>234,684</u>	<u>96,106</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	468,212	-	-	468,212
Transfers out	-	-	(421,778)	(421,778)
<b>Total Other Financing Sources (Uses)</b>	<u>468,212</u>	<u>-</u>	<u>(421,778)</u>	<u>46,434</u>
<b>Net Change in Fund Balances</b>	659,180	(329,546)	(187,094)	142,540
Fund Balances - Beginning, as restated	<u>2,867,716</u>	<u>2,099,394</u>	<u>2,247,442</u>	<u>7,214,552</u>
Fund Balances - Ending	<u><u>\$ 3,526,896</u></u>	<u><u>\$ 1,769,848</u></u>	<u><u>\$ 2,060,348</u></u>	<u><u>\$ 7,357,092</u></u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2013**

	<u>Total</u>
<b>Net Change in Fund Balances - Total Governmental Fund Balances</b>	<b>\$ 142,540</b>
<p>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. Governmental funds also report proceeds from the sale of fixed assets as revenue, however in the Statement of Activities a gain or loss from disposal is recorded. The net amounts are reflected here as reconciling items:</p>	
Capital Outlays	\$ 946,365
Depreciation Expense	<u>(757,786)</u>
Net effect of reporting capital assets	188,579
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:</p>	
Repayments of capital leases	31,010
Repayments of debt	<u>751,192</u>
Net effect of reporting long-term debt	782,202
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from deferred revenue.</p>	
	114,807
<p>In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.</p>	
	42,696
<p>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:</p>	
Other postemployment benefits	106,949
Compensated absences	<u>14,301</u>
Net effect of reporting long-term liabilities	121,250
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 1,392,074</u></b>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2013**

	<u>Business-Type Enterprise Fund Water</u>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 765,144
Receivables, net:	
User charges	<u>179,853</u>
Total current assets	<u>944,997</u>
Noncurrent assets:	
Net OPEB asset	2,150
Capital assets, not being depreciated	610,451
Capital assets, net of depreciation	<u>2,317,098</u>
Total noncurrent assets	<u>2,929,699</u>
<b>Total Assets</b>	<u>3,874,696</u>
<b>Liabilities:</b>	
Current liabilities:	
Bonds and notes payable	12,029
Compensated absences	<u>2,984</u>
Total current liabilities	<u>15,013</u>
Noncurrent liabilities:	
Bonds and notes payable	96,232
Compensated absences	<u>2,984</u>
Total noncurrent liabilities	<u>99,216</u>
<b>Total Liabilities</b>	<u>114,229</u>
<b>Net Position:</b>	
Invested in capital assets, net of related debt	2,819,288
Unrestricted	<u>941,179</u>
<b>Total Net Position</b>	<u>\$ 3,760,467</u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013**

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	<u>Business-Type Enterprise Fund Water</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 561,748
Other	76,751
Total Operating Revenues	<u>638,499</u>
<b>Operating Expenses:</b>	
Operating costs	484,999
Depreciation	85,990
Total Operating Expenses	<u>570,989</u>
<b>Operating Income (Loss)</b>	<u>67,510</u>
<b>Nonoperating Revenues (Expenses):</b>	
System development fees	33,000
Investment income	4,491
Interest expense	(3,759)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>33,732</u>
<b>Income (Loss) Before Transfers</b>	101,242
Transfers out	<u>(46,434)</u>
<b>Change in Net Position</b>	54,808
Total Net Position - Beginning, as restated	<u>3,705,659</u>
Total Net Position - Ending	<u><u>\$ 3,760,467</u></u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013**

	Business-Type Enterprise Fund Water
<b>Cash Flows from Operating Activities:</b>	
Receipts from users	\$ 631,974
Payments to employees	(164,424)
Payments to vendors	(313,539)
Net Cash Provided by (Used for) Operating Activities	<u>154,011</u>
<b>Cash Flows from Noncapital Related Financing Activities:</b>	
Transfers out	(46,434)
Net Cash (Used for) Provided by Noncapital Financing Activities	<u>(46,434)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
System development fees	33,000
Acquisition and construction of capital assets	(121,905)
Principal payments on bonds and notes	(12,029)
Interest expense	(6,014)
Net Cash Used for Capital and Related Financing Activities	<u>(106,948)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest income	4,491
Net Cash Provided by Investing Activities	<u>4,491</u>
<b>Net Change in Cash and Cash Equivalents</b>	5,120
<b>Cash and Cash Equivalents:</b>	
Beginning of year	<u>760,024</u>
End of year	<u><u>\$ 765,144</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</b>	
Operating income (loss)	\$ 67,510
Depreciation expense	85,990
Changes in assets and liabilities:	
Receivables	(6,525)
Net OPEB asset	5,247
Accounts payable and accrued expenses	1,789
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 154,011</u></u>

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2013**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
<b>Assets:</b>			
Cash and cash equivalents	\$ 14,161	\$ -	\$ 27,150
Investments	1,396,031	201,135	-
Receivables	-	123,494	-
<b>Total Assets</b>	<u>1,410,192</u>	<u>324,629</u>	<u>27,150</u>
<b>Liabilities:</b>			
Other liabilities	-	-	27,150
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>\$ 27,150</u>
<b>Net Position:</b>			
Held in trust for other postemployment benefits	1,410,192	-	
Held in trust for private purposes	-	324,629	
<b>Total Net Position</b>	<u>\$ 1,410,192</u>	<u>\$ -</u>	

See accompanying notes to basic financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2013**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
	<u>                    </u>	<u>                    </u>
<b>Additions</b>		
Contributions:		
Employer	\$ 304,108	\$ -
Employee	27,606	-
Total contributions	<u>331,714</u>	<u>-</u>
Investment income:		
Interest and dividends	49,259	213
Realized gain/loss on investments	22,132	-
Unrealized gain/loss on investments	35,449	-
Less - investment management fees	<u>(7,604)</u>	<u>-</u>
Net investment earnings	99,236	213
Other income	<u>-</u>	<u>7,202</u>
Total Additions	<u>430,950</u>	<u>7,415</u>
<b>Deductions</b>		
Life and health insurance premiums paid for retirees	55,213	-
Health and human services	<u>-</u>	<u>-</u>
Total Deductions	<u>55,213</u>	<u>-</u>
<b>Change in Net Position</b>	375,737	7,415
<b>Net Position - Beginning of Year</b>	<u>1,034,455</u>	<u>317,214</u>
<b>Net Position - End of Year</b>	<u><u>\$ 1,410,192</u></u>	<u><u>\$ 324,629</u></u>

See accompanying notes to basic financial statements.

## TOWN OF WEST NEWBURY, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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#### **I. Summary of Significant Accounting Policies**

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

##### **A. Reporting Entity**

The Town of West Newbury is located in Essex County and was incorporated as a town in 1819. An elected three-member Board of Selectmen governs the Town with an appointed Executive Administrator. Each Board of Selectmen member serves three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, highway services, water, trash collection, street maintenance, parks and recreational facilities. Water services are funded almost entirely with user charges.

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 Pentucket Regional School District that provides educational services to the three member communities of West Newbury, Groveland and Merrimac. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2013, the Town's share of the operating and debt service expenses was \$6,045,861. 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 22 Main Street, West Newbury, MA 01985.

##### **B. Government-Wide and Fund Financial Statements**

In 2013, the Town implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation, the basic financial statements were renamed to the *statement of net position* and *statement of revenues, expenses and changes in net position*. These statements were formerly referred to as the *statement of net assets* and *statement of revenues, expenses and changes in net assets*. All previous references to *net assets* have been replaced with the concept of *net position* in accordance with GASB 63. The Town did not have any assets or liabilities that were required to be reported as deferred outflows of resources and deferred inflows of resources in these financial statements.



The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

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

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

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

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

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.

*Community Preservation Act Fund* – is used to account for funds received in accordance with the state Community Preservation Act. Funds are used to acquire or develop open space, recreational facilities, historic resources and affordable housing.

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, 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:

*Water* – is used to account for user charges collected to finance costs associated with operating and maintaining the Town’s water utility.

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:

*Other Postemployment Benefits Trust Fund* – is used to accumulate funds for future payments of other postemployment benefits for retirees such as health and life insurance.

*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 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 developer escrow funds. 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 due in four installments on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date, whichever is later. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes, septic betterments and water user fees may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectibles comprised of those outstanding amounts greater than five years old, if material.

*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, water mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

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

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

Buildings and improvements	40 years
Machinery, equipment and vehicles	2-12 years
Infrastructure	60 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.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

*Investment Income* – 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 permanent and proprietary funds is retained in the respective funds.

*Compensated Absences* – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

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

*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 does not have any items that qualify for reporting as a deferred inflow.

*Net Position* – In the government-wide financial statements, net position reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt 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.

*Community preservation* represents assets that are restricted by state law for the purposes of acquiring or developing open space, recreational facilities, historic resources and affordable housing.

*Other purposes* represent assets that are restricted by grantors, 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.

*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 Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless 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 Accountant to assign fund balance. 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 general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$530,987 at June 30, 2013 and is reported as unassigned fund balance in the General Fund.

The Town maintains a water stabilization fund which may be used for any water enterprise purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$158,000 at June 30, 2013 and is reported as unrestricted net position in the Water Enterprise 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 Accountant as assigned, and (2) classify encumbrances that result from an action of 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 \$8,563 of encumbrances from normal purchasing activity in the general fund as assigned and \$656,158 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	Community Preservation Act Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 7,500	\$ 7,500
Restricted:				
General government	-	-	850,056	850,056
Health and human services	-	-	268,568	268,568
Culture and recreation	-	-	885,902	885,902
Community preservation	-	1,769,848	-	1,769,848
Other purposes	-	-	48,322	48,322
Committed:				
Education	333,094	-	-	333,094
Public works	267,912	-	-	267,912
Other purposes	55,152	-	-	55,152
Assigned:				
Purchase orders	8,563	-	-	8,563
Subsequent years' budget	303,129	-	-	303,129
Unassigned	2,559,046	-	-	2,559,046
	<u>\$ 3,526,896</u>	<u>\$ 1,769,848</u>	<u>\$ 2,060,348</u>	<u>\$ 7,357,092</u>

#### **D. Excess of Expenditures Over Appropriations and Deficits**

Expenditures did not exceed appropriations for any line-items during the fiscal year.

#### **E. 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's deposit policy requires the Town to maintain no more than 25% of the Town's cash balance in any one institution. At year-end, the carrying amount of the Town's deposits was \$6,702,475 and the bank balance was \$6,722,514. Of the Town's bank balance, \$1,295,080 was covered by either federal depository insurance or by the depositors' insurance fund; \$2,889,482 was collateralized; 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. The Town's formal policy requires that investments in corporate bonds must be investment grade A or higher by Moody's or Standard and Poor.

The Town's investments of \$1,201,892 in the MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. United States governmental obligations totaling \$83,499, corporate bond holdings totaling \$129,847, exchange traded products totaling \$75,705 and mutual fund investments totaling \$2,144,520 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

At June 30, 2013, the credit quality ratings of investments were as follows:

Quality Ratings (Moody's)	Investment Type			
	U.S. Government Obligations	Corporate Bonds	Certificates of Deposit	Fair Value
Aaa	\$ 83,499	\$ -	\$ -	\$ 83,499
A1	-	56,272	-	56,272
Not rated	-	73,575	532,239	605,814
Totals	<u>\$ 83,499</u>	<u>\$ 129,847</u>	<u>\$ 532,239</u>	<u>\$ 745,585</u>

*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. The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total investments.



As of June 30, 2013, the Town had the following investments:

	Fair Value Total	Time Until Maturity (In Years)	
		Category <1	Category 1 - 5
U.S. Government obligations	\$ 83,499	\$ -	\$ 83,499
Corporate bonds	129,847	56,272	73,575
Certificates of deposit	532,239 *	90,118	442,121
	<u>745,585</u>	<u>\$ 146,390</u>	<u>\$ 599,195</u>

Investments not subject to categorization:

Exchange traded products	75,705
Mutual funds	2,144,520
State Treasurer's Pool (MMDT)	<u>1,201,892</u>
	<u>3,422,117</u>

Total investments	<u><u>\$ 4,167,702</u></u>
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\* Certificates of deposit have also been included in the carrying amount of deposits in the custodial credit risk of deposits as these certificates are subject to federal depository insurance coverage.

## B. Receivables

Receivables as of year-end for the Town's individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 118,844	\$ -	\$ 118,844
Tax liens, deferrals and foreclosures	120,476	-	120,476
Excise	53,782	-	53,782
Community preservation surcharges	3,557	-	3,557
Title V betterments	81,344	-	81,344
Other	186	-	186
Intergovernmental	<u>6,898</u>	<u>-</u>	<u>6,898</u>
Total	<u><u>\$ 385,087</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 385,087</u></u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water - user fees	\$ 179,853	\$ -	\$ 179,853
Total	<u>\$ 179,853</u>	<u>\$ -</u>	<u>\$ 179,853</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred revenues in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 118,844	\$ -	\$ 118,844
Tax liens, deferrals and foreclosures	120,476	-	120,476
Excise	53,782	-	53,782
Community perservation surcharges	-	3,557	3,557
Title V betterments	-	81,344	81,344
Other	186	-	186
Intergovernmental	-	6,898	6,898
Total	<u>\$ 293,288</u>	<u>\$ 91,799</u>	<u>\$ 385,087</u>

**Betterments** – Unapportioned Title V betterments of \$80,717 are included in the Title V betterments receivable and represent amounts that are expected to be billed in future years for Title V septic projects.

### C. Interfund Receivables, Payables and Transfers

Intrafund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

	Transfers In	
	General Fund	
Transfers Out		
Nonmajor Governmental Funds	\$ 421,778	(1)
Water Enterprise Fund	46,434	(2)
Total	<u>\$ 468,212</u>	

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

(2) Transfers to general fund for indirect costs.

## D. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 9,453,482	\$ -	\$ -	\$ 9,453,482
Construction in process	7,535	706,250	-	713,785
Total capital assets not being depreciated	9,461,017	706,250	-	10,167,267
Capital assets being depreciated:				
Buildings	12,406,694	-	-	12,406,694
Improvements other than buildings	1,497,348	11,302	-	1,508,650
Infrastructure	7,478,761	-	-	7,478,761
Machinery and equipment	695,120	196,582	(94,888)	796,814
Vehicles	2,801,252	32,231	(30,175)	2,803,308
Total capital assets being depreciated	24,879,175	240,115	(125,063)	24,994,227
Less accumulated depreciation for:				
Buildings	(5,189,702)	(316,505)	-	(5,506,207)
Improvements other than buildings	(1,095,946)	(79,836)	-	(1,175,782)
Infrastructure	(1,989,480)	(123,747)	-	(2,113,227)
Machinery and equipment	(578,141)	(22,517)	94,888	(505,770)
Vehicles	(1,576,559)	(215,181)	30,175	(1,761,565)
Total accumulated depreciation	(10,429,828)	(757,786)	125,063	(11,062,551)
Total capital assets being depreciated, net	14,449,347	(517,671)	-	13,931,676
Total governmental activities capital assets, net	\$ 23,910,364	\$ 188,579	\$ -	\$ 24,098,943
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 395,662	\$ -	\$ -	\$ 395,662
Construction in process	92,886	121,903	-	214,789
Total capital assets not being depreciated	488,548	121,903	-	610,451
Capital assets being depreciated:				
Infrastructure	4,732,160	-	-	4,732,160
Improvements other than buildings	5,570	-	-	5,570
Machinery and equipment	92,360	-	-	92,360
Vehicles	66,838	-	-	66,838
Total capital assets being depreciated	4,896,928	-	-	4,896,928
Less accumulated depreciation for:				
Infrastructure	(2,372,545)	(75,938)	-	(2,448,483)
Improvements other than buildings	(4,735)	(557)	-	(5,292)
Machinery and equipment	(51,697)	(7,520)	-	(59,217)
Vehicles	(64,863)	(1,975)	-	(66,838)
Total accumulated depreciation	(2,493,840)	(85,990)	-	(2,579,830)
Total capital assets being depreciated, net	2,403,088	(85,990)	-	2,317,098
Total business-type activities capital assets, net	\$ 2,891,636	\$ 35,913	\$ -	\$ 2,927,549

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General government	\$ 98,457	Water	<u>\$ 85,990</u>
Public safety	260,010		
Education	99,948		
Public works	216,639		
Health and human services	20,373		
Culture and recreation	62,359		
	<u>\$ 757,786</u>		

## E. Capital Leases

The Town has entered into non-cancelable leases for the purchase of a fire truck. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	<u>Amount</u>
<i>Asset:</i>	
Aerial Fire Ladder Truck	\$ 731,019
Less: accumulated depreciation	<u>(328,959)</u>
Total	<u>\$ 402,060</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2013, are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2014	\$ 44,782
2015	44,781
2016	44,782
2017	44,781
2018	44,782
2019	44,781
2020	<u>44,782</u>
Total minimum lease payments	313,471
Less: amounts representing interest	<u>(37,079)</u>
Present value of minimum lease payments	<u>\$ 276,392</u>

## F. Temporary Debt

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.

The Town does not report any temporary debt activity during the current fiscal year.

## G. Long-Term Obligations

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

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% 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 activity in the long-term liability accounts for the year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 6,007,402	\$ -	\$ (751,192)	\$ 5,256,210	\$ 756,192
Capital lease obligations	307,402	-	(31,010)	276,392	35,799
Compensated absences	104,213	1,331	(15,632)	89,912	13,487
<b>Total Governmental Activities</b>	<u>\$ 6,419,017</u>	<u>\$ 1,331</u>	<u>\$ (797,834)</u>	<u>\$ 5,622,514</u>	<u>\$ 805,478</u>
<i>Business-type Activities: Water</i>					
Bond and note debt	\$ 120,290	\$ -	\$ (12,029)	\$ 108,261	\$ 12,029
Compensated absences	4,179	3,879	(2,090)	5,968	2,984
<b>Total Business-type Activities</b>	<u>\$ 124,469</u>	<u>\$ 3,879</u>	<u>\$ (14,119)</u>	<u>\$ 114,229</u>	<u>\$ 15,013</u>

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

The following is a summary of outstanding long-term debt obligations as of June 30, 2013:

Description of Issue	Interest Rate	Outstanding June 30, 2012	Issuances	Maturities	Outstanding June 30, 2013
<u>Governmental Activities:</u>					
General Obligation Bonds	2.00 - 4.00%	\$ 5,085,000	\$ -	\$ (585,000)	\$ 4,500,000
Refunding Bonds	2.00 - 3.00%	690,000	-	(145,000)	545,000
MWPAT Notes (Title V)	0.00 - 5.25%	232,402	-	(21,192)	211,210
<b>Total Governmental Activities</b>		<u>\$ 6,007,402</u>	<u>\$ -</u>	<u>\$ (751,192)</u>	<u>\$ 5,256,210</u>
<u>Business-Type Activities - Water</u>					
FHA Loan	5.00%	\$ 120,290	\$ -	\$ (12,029)	\$ 108,261
<b>Total Business-Type Activities</b>		<u>\$ 120,290</u>	<u>\$ -</u>	<u>\$ (12,029)</u>	<u>\$ 108,261</u>

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

<u>Governmental Activities - Total Bond and Note Indebtedness</u>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2014	\$ 756,192	\$ -	\$ 756,192	\$ 121,278	\$ (4,478)	\$ 116,800	\$ 872,992
2015	746,192	-	746,192	100,984	(3,909)	97,075	843,267
2016	741,192	-	741,192	77,615	(3,215)	74,400	815,592
2017	601,192	-	601,192	57,172	(2,772)	54,400	655,592
2018	491,192	-	491,192	43,204	(2,204)	41,000	532,192
2019 - 2023	1,899,522	-	1,899,522	85,632	(3,282)	82,350	1,981,872
2024 - 2025	20,728	-	20,728	-	-	-	20,728
Total	<u>\$ 5,256,210</u>	<u>\$ -</u>	<u>\$ 5,256,210</u>	<u>\$ 485,885</u>	<u>\$ (19,860)</u>	<u>\$ 466,025</u>	<u>\$ 5,722,235</u>
<u>Business-type Activities: Water - Bond and Note Indebtedness</u>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2014	\$ 12,029	\$ -	\$ 12,029	\$ 5,413	\$ -	\$ 5,413	\$ 17,442
2015	12,029	-	12,029	4,812	-	4,812	16,841
2016	12,029	-	12,029	4,210	-	4,210	16,239
2017	12,029	-	12,029	3,609	-	3,609	15,638
2018	12,029	-	12,029	3,007	-	3,007	15,036
2019 - 2023	48,116	-	48,116	6,014	-	6,014	54,130
Total	<u>\$ 108,261</u>	<u>\$ -</u>	<u>\$ 108,261</u>	<u>\$ 27,065</u>	<u>\$ -</u>	<u>\$ 27,065</u>	<u>\$ 135,326</u>

MWPAT Loan Subsidies – The Town has entered into multiple loan agreements with the MWPAT for Title V loans. It is expected that the Town will be subsidized by the MWPAT on a periodic basis for interest in the amount of \$19,860 until the maturity of these agreements.

Authorized and Unissued Debt – The Town did not have any authorized and unissued debt as of June 30, 2013.

### **III. Other Information**

#### **A. Retirement System**

*Plan Description* – The Town contributes to the Essex Regional Retirement System (the “System”), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (“MGL”) and is administered by Plymouth County Retirement Association (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 Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, MA 01923.

*Funding Policy* – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the 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, 2013, 2012, and 2011 were \$451,753, \$420,272 and \$386,155, 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**

Retired teachers and certain administrative individuals who were previously employed by the Town when the Town maintained its own School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$87,928 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. The number of participants in the Plan consists of 43 active employees and 21 retired employees for a total of 64.

*Funding Policy* - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated 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, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town’s OPEB obligation:

Annual required contribution (ARC)	\$ 202,407
Contributions made	<u>(304,109)</u>
Increase in net OPEB (asset) obligation	(101,702)
Net OPEB (asset) obligation at beginning of year	<u>(58,447)</u>
Net OPEB (asset) obligation at end of year	<u><u>\$ (160,149)</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, 2011	\$ 295,738	268%	\$ 670
June 30, 2012	\$ 276,696	121%	(\$ 58,447)
June 30, 2013	\$ 202,407*	150%	(\$ 160,149)

\* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2013 was charged to the following functional programs: General Government \$30,022; Public Safety \$91,622; Public Works \$21,871; Health and Human Services \$7,991; Culture and Recreation \$11,569 and Water \$39,332.



**Funding Status and Funding Progress** – The funded status of the Plan for the most recent actuarial valuation performed as of July 1, 2010, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ 1,410,193	\$ 1,550,852	\$ 140,659	0.0%	\$ 2,201,970	6.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

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

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	July 1, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar (closed)
Remaining amortization period	5
Interest discount rate	7%
Healthcare/Medical cost trend rate	9% grading down to 5% by year 2017 and thereafter

#### **E. Commitments and Contingencies**

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2013, 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, 2013.

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

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

## F. Restatement of Prior Year Balances

	Business-type Activities	Water		
Prior year as presented	\$ 3,534,305	\$ 3,534,305		
Record unbilled water user fees receivable	171,354	171,354		
As restated	<u>\$ 3,705,659</u>	<u>\$ 3,705,659</u>		
	Community Preservation Act Fund	Non-major Governmental	Other Postemployment Benefits Trust Funds	Private Purpose Trust Funds
Prior year as presented	\$ -	\$ 4,346,836	\$ -	\$ 1,351,669
Reclassify from Nonmajor	2,099,394	(2,099,394)	-	-
Reclassify from Private Purpose Trust Funds	-	-	1,034,455	(1,034,455)
As restated	<u>\$ 2,099,394</u>	<u>\$ 2,247,442</u>	<u>\$ 1,034,455</u>	<u>\$ 317,214</u>

## IV. Implementation of New GASB Pronouncements

### A. Current Year Implementation

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement was to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The Statement was intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") pronouncements. The provisions of GASB 62 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement was to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*,

introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement was to clarify whether an effective hedging relationship continues after the replacement of a swap-counterparty or a swap-counterparty's credit support provider. The provisions of GASB 64 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

## **B. Future 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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 this Statement are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption 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, 2013 (fiscal year 2014). 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 April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

**TOWN OF WEST NEWBURY, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

**SCHEDULES OF FUNDING PROGRESS  
Pension System - Essex Regional Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2013	\$ 314,565,925	\$ 619,339,080	\$ 304,773,155	50.8%	\$ 119,292,287	255.5%
1/1/2011	278,332,006	536,115,536	257,783,530	51.9%	119,707,156	215.3%
1/1/2008	301,420,965	445,171,554	143,750,589	67.7%	111,726,856	128.7%

**Other Post Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2013	\$ 1,410,193	\$ 1,550,852	\$ 140,659	90.9%	\$ 2,201,970	6.4%
7/1/2010	-	2,790,897	2,790,897	0.0%	2,082,947	134.0%
7/1/2007	-	2,819,000	2,819,000	0.0%	2,300,000	122.6%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Pension System**

Year Ended December 31,	Essex 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
2013	\$ 22,770,925	\$ 22,770,925	100.0%	\$ 451,753	2.0%
2012	21,084,190	21,084,190	100.0%	420,272	2.0%
2011	19,136,746	19,136,746	100.0%	386,155	2.0%

**Other Post Employment Benefits**

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2013	\$ 202,407	\$ 304,109	150%
2012	276,696	335,813	121%
2011	295,738	791,724	268%

See accompanying independent auditor's report.

**TOWN OF WEST NEWBURY, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Postive
	Budget	Budget	Amounts		Adjusted	(Negative)
<b>Revenues</b>						
Real estate and personal property taxes, net	\$ 11,386,379	\$ 11,386,379	\$ 11,497,516	\$ -	\$ 11,497,516	\$ 111,137
Intergovernmental	321,166	321,166	315,144	-	315,144	(6,022)
Motor vehicle and other excises	526,100	526,100	599,627	-	599,627	73,527
Departmental and other revenue	32,000	32,000	63,039	-	63,039	31,039
Licenses and permits	120,000	120,000	187,665	-	187,665	67,665
Penalties and interest on taxes	45,000	45,000	58,466	-	58,466	13,466
Fines and forfeitures	20,000	20,000	15,098	-	15,098	(4,902)
Investment income	18,000	18,000	38,882	-	38,882	20,882
<b>Total Revenues</b>	<b>12,468,645</b>	<b>12,468,645</b>	<b>12,775,437</b>	<b>-</b>	<b>12,775,437</b>	<b>306,792</b>
<b>Expenditures</b>						
General government	1,011,433	1,011,433	880,291	4,642	884,933	126,500
Public safety	1,618,688	1,618,688	1,502,533	12,169	1,514,702	103,986
Education	6,526,228	6,526,228	6,193,133	333,094	6,526,227	1
Public works	1,552,022	1,552,022	1,246,278	268,236	1,514,514	37,508
Health and human services	524,794	524,794	483,767	-	483,767	41,027
Culture and recreation	349,508	349,508	301,076	46,580	347,656	1,852
Pensions and fringe benefits	943,293	943,293	893,522	-	893,522	49,771
State and county tax assessments	132,958	132,958	132,858	-	132,858	100
Debt service	881,492	881,492	881,492	-	881,492	-
<b>Total Expenditures</b>	<b>13,540,416</b>	<b>13,540,416</b>	<b>12,514,950</b>	<b>\$ 664,721</b>	<b>13,179,671</b>	<b>360,745</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	444,742	444,742	444,742		444,742	-
Transfers out	(220,000)	(220,000)	(220,000)		(220,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>224,742</b>	<b>224,742</b>	<b>224,742</b>		<b>224,742</b>	<b>-</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses						
Of Prior Year Budgetary Fund Balance	(847,029)	(847,029)	\$ 485,229		\$ (179,492)	\$ 667,537
<b>Other Budgetary Items</b>						
Use of free cash (unassigned fund balance)	773,818	773,818				
Prior year encumbrances	73,211	73,211				
	<b>\$ -</b>	<b>\$ -</b>				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

## TOWN OF WEST NEWBURY, MASSACHUSETTS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2013

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#### I. Budgetary Basis of Accounting

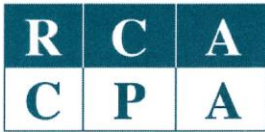
*Budgetary Information* – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and Finance Committee and approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. 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 2013, Town Meeting did not approve any significant appropriations after the original budget was approved.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by 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 of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2013, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 12,775,437
Stabilization investment income	\$ -	\$ 3,015	3,015
On behalf payments	87,928	-	87,928
Change in 60-day receipts	(72,534)	-	(72,534)
Revenues on a GAAP basis	<u>\$ 15,394</u>	<u>\$ 3,015</u>	<u>\$ 12,793,846</u>
Expenditures on a budgetary basis			\$ 12,514,950
On behalf payments	\$ 87,928	\$ -	87,928
Expenditures on a GAAP basis	<u>\$ 87,928</u>	<u>\$ -</u>	<u>\$ 12,602,878</u>
Net transfers on a budgetary basis			\$ 224,742
Stabilization transfers	\$ -	\$ (55,752)	(55,752)
Transfers to budgeted	299,222	-	299,222
Net transfers on a GAAP basis	<u>\$ 299,222</u>	<u>\$ (55,752)</u>	<u>\$ 468,212</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 West Newbury, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of West Newbury, Massachusetts (the "Town"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 21, 2014.

**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.

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.

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.



### **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  
March 21, 2014