

TOWN OF WEST NEWBURY, MASSACHUSETTS

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

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

TOWN OF WEST NEWBURY, MASSACHUSETTS

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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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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 January 7, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
January 7, 2015

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, 2014. 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 and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$32.1 million (*total net position*). Approximately \$28.2 million represented net position of governmental activities and \$3.9 million represented net position of the business-type activities.
- The government's total net position increased by approximately \$2.0 million or approximately 6.5% year to year. This was due to an increase of \$1.9 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, capital additions exceeding depreciation and the pay down of outstanding debt liabilities. 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 \$2.8 million (21.2% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$3.9 million (29.5% of General Fund expenditures). Total fund balances in the Town's Community Preservation Fund, Library Trust Fund and the Combined Nonmajor Governmental Funds were approximately \$2.1 million, \$0.9 million and \$1.1 million, respectively.
- 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, deferred outflows, liabilities and deferred inflows, 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.)

The government-wide financial statements consist of two classifications; (1) those whose activities are principally supported by taxes and intergovernmental revenue (*governmental activities*) and (2) those whose activities 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:

- Non-spendable —amounts cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact
- 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, community preservation fund and library trust 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 Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water 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.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$32.1 million (*total net position*).

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<u>Assets</u>						
Current and other assets	\$ 8,996,184	\$ 8,477,404	\$ 1,142,884	\$ 947,147	\$ 10,139,068	\$ 9,424,551
Capital assets, net	24,518,696	24,098,943	2,862,713	2,927,549	27,381,409	27,026,492
Total assets	33,514,880	32,576,347	4,005,597	3,874,696	37,520,477	36,451,043
Deferred outflows of resources	-	-	-	-	-	-
<u>Liabilities</u>						
Long-term liabilities	4,830,171	5,622,514	101,415	114,229	4,931,586	5,736,743
Other liabilities	470,245	577,226	28,364	-	498,609	577,226
Total liabilities	5,300,416	6,199,740	129,779	114,229	5,430,195	6,313,969
Deferred inflows of resources	-	-	-	-	-	-
<u>Net Position</u>						
Net investment in capital assets	19,968,103	18,777,551	2,766,481	2,819,288	22,734,584	21,596,839
Restricted	4,116,032	3,840,651	-	-	4,116,032	3,840,651
Unrestricted	4,130,329	3,758,405	1,109,337	941,179	5,239,666	4,699,584
Total Net Position	\$ 28,214,464	\$ 26,376,607	\$ 3,875,818	\$ 3,760,467	\$ 32,090,282	\$ 30,137,074

By far the largest portion (approximately \$22.7 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt 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 \$4.1 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance (approximately \$5.2 million) represents *unrestricted net position*.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 546,798	\$ 476,538	\$ 661,040	\$ 638,499	\$ 1,207,838	\$ 1,115,037
Operating grants and contributions	226,664	153,538	-	-	226,664	153,538
Capital grants and contributions	507,257	347,067	36,000	33,000	543,257	380,067
General revenues:						
Property taxes	12,029,920	11,778,484	-	-	12,029,920	11,778,484
Intergovernmental	324,031	315,145	-	-	324,031	315,145
Other	870,328	847,834	5,402	4,491	875,730	852,325
Total Revenues	14,504,998	13,918,606	702,442	675,990	15,207,440	14,594,596
<u>Expenses</u>						
General government	1,204,049	1,168,492	-	-	1,204,049	1,168,492
Public safety	2,162,418	2,180,508	-	-	2,162,418	2,180,508
Education	6,710,355	6,443,384	-	-	6,710,355	6,443,384
Public works	1,515,473	1,592,450	-	-	1,515,473	1,592,450
Health and human services	529,221	590,048	-	-	529,221	590,048
Culture and recreation	474,147	489,288	-	-	474,147	489,288
Debt service	116,800	108,796	-	-	116,800	108,796
Water	-	-	541,769	574,748	541,769	574,748
Total Expenses	12,712,463	12,572,966	541,769	574,748	13,254,232	13,147,714
Increase in net position before transfers	1,792,535	1,345,640	160,673	101,242	1,953,208	1,446,882
Transfers	45,322	46,434	(45,322)	(46,434)	-	-
Increase in net position after transfers	1,837,857	1,392,074	115,351	54,808	1,953,208	1,446,882
Net position, beginning of year,	26,376,607	24,984,533	3,760,467	3,705,659	30,137,074	28,690,192
Net position, end of year	<u>\$ 28,214,464</u>	<u>\$ 26,376,607</u>	<u>\$ 3,875,818</u>	<u>\$ 3,760,467</u>	<u>\$ 32,090,282</u>	<u>\$ 30,137,074</u>

Governmental Activities - The Town relies significantly on property taxes, which, during 2014, made up approximately 82.9% of total governmental activities revenues, down from 84.6% in the prior year. No other revenues were greater than 10% of total revenues in 2014 or 2013. The decrease is a result of slightly revenues from charges for services and state aid.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 52.8% which was up from the prior year of 51.3%. 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 17.0% of total expenditures, which was consistent with the prior year ratio of 17.3%. Public works expenditures represented 11.9% of total expenditures, which was consistent with the prior year ratio of 12.7%. No other expense types were greater than 10% of total expenses in 2014 or 2013.

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 \$2.8 million, while total fund balance reached approximately \$3.9 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 21.2% of total general fund expenditures, while total fund balance represented approximately 29.5% of that same amount.

The Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$8.0 million. In addition to the \$3.9 million in the general fund previously discussed, there were also restricted fund balances in the Community Preservation Fund and Library Trust Fund of approximately \$2.1 million and \$0.9 million, respectively. The fund balance of the combined Nonmajor funds was approximately \$1.1 million; the majority of which is restricted.

The Community Preservation Fund has a restricted fund balance of approximately \$2.1 million at the end of the fiscal year, an increase of \$0.3 million over the prior year. This was due to higher state reimbursements and fewer voted projects.

The Library Trust Fund met the criteria for presentation as a major fund in the current year. The fund has a restricted fund balance of approximately \$0.9 million at the end of the fiscal year, which represents a \$0.1 million increase from the prior year due to investment income.

The Town reported total fund balances of approximately \$1.1 million in the Combined Nonmajor Governmental Funds, which was relatively unchanged after the restatement of the Library Trust Fund.

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 \$3.9 million.

Fiduciary Funds – The Town’s fiduciary funds include over \$1.7 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, 2014, amounts to approximately \$27.4 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 \$0.4 million net of depreciation.

Major capital additions include roads and sidewalks and an addition to the Page School building.

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 \$4.6 million; approximately \$4.5 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 \$40.2 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 Town’s unemployment rates improved and are now approaching rates in place in 2008 before the latest recession.
- 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.

- The Town's budget is subsidized by approximately \$0.4 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 April 2014, the Town voted an initial general fund appropriation budget for fiscal year 2015 that was in balance. The tax rate was certified November 26, 2014.

The above items were considered when the Town developed its budget for fiscal year 2015.

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, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,924,389	\$ 908,726	\$ 8,833,115
Investments	559,465	-	559,465
Receivables (net):			
Property taxes	68,372	-	68,372
User fees	-	200,912	200,912
Departmental and other	171,816	-	171,816
Intergovernmental	32,598	-	32,598
Net OPEB asset	239,544	33,246	272,790
Capital assets, not being depreciated	10,546,957	482,408	11,029,365
Capital assets, net of accumulated depreciation	13,971,739	2,380,305	16,352,044
Total Assets	33,514,880	4,005,597	37,520,477
Deferred Outflows of Resources	-	-	-
Liabilities			
Warrants and accounts payable	318,186	21,478	339,664
Accrued payroll	152,059	6,886	158,945
Noncurrent liabilities:			
Due within one year	796,588	14,620	811,208
Due in more than one year	4,033,583	86,795	4,120,378
Total Liabilities	5,300,416	129,779	5,430,195
Deferred Inflows of Resources	-	-	-
Net Position			
Net investment in capital assets	19,968,103	2,766,481	22,734,584
Restricted:			
Nonexpendable permanent funds	7,500	-	7,500
Community preservation	2,088,009	-	2,088,009
Other purposes	2,020,523	-	2,020,523
Unrestricted	4,130,329	1,109,337	5,239,666
Total Net Position	\$ 28,214,464	\$ 3,875,818	\$ 32,090,282

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,204,049	\$ 250,503	\$ 11,956	\$ -	\$ (941,590)		\$ (941,590)
Public safety	2,162,418	227,513	41,096	-	(1,893,809)		(1,893,809)
Education	6,710,355	-	83,204	-	(6,627,151)		(6,627,151)
Public works	1,515,473	-	44,224	250,074	(1,221,175)		(1,221,175)
Health and human services	529,221	2,422	23,192	-	(503,607)		(503,607)
Culture and recreation	474,147	66,360	22,992	257,183	(127,612)		(127,612)
Debt service	116,800	-	-	-	(116,800)		(116,800)
Total governmental activities	12,712,463	546,798	226,664	507,257	(11,431,744)		(11,431,744)
Business-type activities:							
Water	541,769	661,040	-	36,000		\$ 155,271	155,271
Total business-type activities	541,769	661,040	-	36,000		155,271	155,271
Total Primary Government	\$ 13,254,232	\$ 1,207,838	\$ 226,664	\$ 543,257	(11,431,744)	155,271	(11,276,473)
<u>General Revenues:</u>							
					12,029,920	-	12,029,920
Property taxes					628,257	-	628,257
Motor vehicle and other excise						-	
Grants and contributions not restricted to specific programs					324,031	-	324,031
Penalties and interest on taxes					61,269	-	61,269
Unrestricted investment income					180,802	5,402	186,204
Transfers (net)					45,322	(45,322)	-
Total general revenues and transfers					13,269,601	(39,920)	13,229,681
Change in Net Position					1,837,857	115,351	1,953,208
<u>Net Position:</u>							
Beginning of year					26,376,607	3,760,467	30,137,074
End of year					\$ 28,214,464	\$ 3,875,818	\$ 32,090,282

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

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

	<u>General Fund</u>	<u>Community Preservation Act Fund</u>	<u>Library Trust Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 3,952,430	\$ 2,099,826	\$ 873,369	\$ 998,764	\$ 7,924,389
Investments	422,829	-	74,452	62,184	559,465
Receivables, net of allowance for uncollectibles:					
Property taxes	67,038	1,334	-	-	68,372
Departmental and other	99,959	73	-	71,784	171,816
Intergovernmental	-	-	-	32,598	32,598
Total Assets	<u>4,542,256</u>	<u>2,101,233</u>	<u>947,821</u>	<u>1,165,330</u>	<u>8,756,640</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 4,542,256</u></u>	<u><u>\$ 2,101,233</u></u>	<u><u>\$ 947,821</u></u>	<u><u>\$ 1,165,330</u></u>	<u><u>\$ 8,756,640</u></u>
Liabilities					
Warrants and accounts payable	\$ 297,750	\$ 12,861	\$ -	\$ 7,575	\$ 318,186
Accrued payroll	145,927	363	-	5,769	152,059
Total Liabilities	<u>443,677</u>	<u>13,224</u>	<u>-</u>	<u>13,344</u>	<u>470,245</u>
Deferred Inflows of Resources					
Unavailable revenues - property taxes	67,038	1,334	-	-	68,372
Unavailable revenues - other	99,959	73	-	71,784	171,816
Total Deferred Inflows of Resources	<u>166,997</u>	<u>1,407</u>	<u>-</u>	<u>71,784</u>	<u>240,188</u>
Fund Balances					
Nonspendable	-	-	-	7,500	7,500
Restricted	23,601	2,086,602	947,821	1,072,702	4,130,726
Committed	864,092	-	-	-	864,092
Assigned	209,113	-	-	-	209,113
Unassigned	2,834,776	-	-	-	2,834,776
Total Fund Balances	<u>3,931,582</u>	<u>2,086,602</u>	<u>947,821</u>	<u>1,080,202</u>	<u>8,046,207</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u><u>\$ 4,542,256</u></u>	<u><u>\$ 2,101,233</u></u>	<u><u>\$ 947,821</u></u>	<u><u>\$ 1,165,330</u></u>	<u><u>\$ 8,756,640</u></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, 2014**

Total Governmental Fund Balances	\$ 8,046,207
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,518,696
The Town has a net asset related to other postemployment benefits. This long-term asset is not reported in the fund financial statements.	239,544
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable in the funds.	240,188
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	(4,500,018)
Capital leases payable	(240,593)
Compensated absences	(89,560)
	<hr/>
Net Position of Governmental Activities	<u><u>\$ 28,214,464</u></u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

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

	General Fund	Community Preservation Act Fund	Library Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 11,877,868	\$ 266,582	\$ -	\$ -	\$ 12,144,450
Intergovernmental	465,541	257,183	-	323,902	1,046,626
Motor vehicle and other excises	641,982	-	-	-	641,982
Licenses and permits	197,550	-	-	-	197,550
Departmental and other revenue	211,890	1,217	-	145,887	358,994
Penalties and interest on taxes	61,269	-	-	-	61,269
Investment income	19,359	4,054	147,442	9,947	180,802
Contributions and donations	-	-	-	18,224	18,224
Total Revenues	<u>13,475,459</u>	<u>529,036</u>	<u>147,442</u>	<u>497,960</u>	<u>14,649,897</u>
Expenditures:					
Current:					
General government	854,174	4,956	-	35,802	894,932
Public safety	1,502,200	-	-	34,747	1,536,947
Education	6,883,761	171,648	-	-	7,055,409
Public works	1,431,450	-	-	256,985	1,688,435
Health and human services	482,163	-	-	33,421	515,584
Culture and recreation	358,247	35,678	-	63,388	457,313
Fringe and pension benefits	863,138	-	-	-	863,138
State and county tax assessments	121,354	-	-	-	121,354
Debt service:					
Principal	735,000	-	-	21,192	756,192
Interest	116,800	-	-	-	116,800
Total Expenditures	<u>13,348,287</u>	<u>212,282</u>	<u>-</u>	<u>445,535</u>	<u>14,006,104</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>127,172</u>	<u>316,754</u>	<u>147,442</u>	<u>52,425</u>	<u>643,793</u>
Other Financing Sources (Uses):					
Transfers in	278,107	-	-	10,593	288,700
Transfers out	(593)	-	(10,000)	(232,785)	(243,378)
Total Other Financing Sources (Uses)	<u>277,514</u>	<u>-</u>	<u>(10,000)</u>	<u>(222,192)</u>	<u>45,322</u>
Net Change in Fund Balances	404,686	316,754	137,442	(169,767)	689,115
Fund Balances - Beginning, as restated	<u>3,526,896</u>	<u>1,769,848</u>	<u>810,379</u>	<u>1,249,969</u>	<u>7,357,092</u>
Fund Balances - Ending	<u>\$ 3,931,582</u>	<u>\$ 2,086,602</u>	<u>\$ 947,821</u>	<u>\$ 1,080,202</u>	<u>\$ 8,046,207</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, 2014

	<u>Total</u>
Net Change in Fund Balances - Total Governmental Fund Balances	\$ 689,115
<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. The net amounts are reflected here as reconciling items:</p>	
Capital outlays	\$ 1,153,706
Depreciation expense	<u>(733,953)</u>
Net effect of reporting capital assets	419,753
<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 amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:</p>	
Repayments of capital leases	35,799
Repayments of debt	<u>756,192</u>
Net effect of reporting long-term debt	791,991
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable 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 unavailable revenue.</p>	
	(144,899)
<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	81,545
Compensated absences	<u>352</u>
Net effect of reporting long-term liabilities	<u>81,897</u>
Change in Net Position of Governmental Activities	\$ <u>1,837,857</u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2014

	Business-Type Enterprise Fund <u>Water</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 908,726
Receivables, net:	
User charges	200,912
Total current assets	<u>1,109,638</u>
Noncurrent assets:	
Net OPEB asset	33,246
Capital assets, not being depreciated	482,408
Capital assets, net of depreciation	2,380,305
Total noncurrent assets	<u>2,895,959</u>
Total Assets	<u>4,005,597</u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	21,478
Accrued payroll	6,886
Bonds and notes payable	12,029
Compensated absences	2,591
Total current liabilities	<u>42,984</u>
Noncurrent liabilities:	
Bonds and notes payable	84,203
Compensated absences	2,592
Total noncurrent liabilities	<u>86,795</u>
Total Liabilities	<u>129,779</u>
Net Position:	
Net investment in capital assets	2,766,481
Unrestricted	1,109,337
Total Net Position	<u>\$ 3,875,818</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, 2014**

	Business-Type Enterprise Fund Water
Operating Revenues:	
Charges for services	\$ 585,825
Other	75,215
Total Operating Revenues	<u>661,040</u>
Operating Expenses:	
Operating costs	450,593
Depreciation	85,763
Total Operating Expenses	<u>536,356</u>
Operating Income (Loss)	<u>124,684</u>
Nonoperating Revenues (Expenses):	
Investment income	5,402
Interest expense	(5,413)
Total Nonoperating Revenues (Expenses)	<u>(11)</u>
Income (Loss) Before Capital Contributions and Transfers	124,673
Capital Contributions:	
System development fees	<u>36,000</u>
Transfers:	
Transfers out	<u>(45,322)</u>
Change in Net Position	115,351
Total Net Position - Beginning	<u>3,760,467</u>
Total Net Position - Ending	<u><u>\$ 3,875,818</u></u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

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

	Business-Type Enterprise Fund Water
Cash Flows from Operating Activities:	
Receipts from users	\$ 639,981
Payments to employees	(167,274)
Payments to vendors	(286,836)
Net Cash Provided by (Used for) Operating Activities	<u>185,871</u>
Cash Flows from Noncapital Related Financing Activities:	
Transfers out	(45,322)
Net Cash (Used for) Provided by Noncapital Financing Activities	<u>(45,322)</u>
Cash Flows from Capital and Related Financing Activities:	
System development fees	36,000
Acquisition and construction of capital assets	(20,927)
Principal payments on bonds and notes	(12,029)
Interest expense	(5,413)
Net Cash Used for Capital and Related Financing Activities	<u>(2,369)</u>
Cash Flows from Investing Activities:	
Interest income	5,402
Net Cash Provided by Investing Activities	<u>5,402</u>
Net Change in Cash and Cash Equivalents	143,582
Cash and Cash Equivalents:	
Beginning of year	765,144
End of year	<u><u>\$ 908,726</u></u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:	
Operating income (loss)	\$ 124,684
Depreciation expense	85,763
Changes in assets and liabilities:	
Receivables	(21,059)
Net OPEB asset	(31,096)
Accounts payable and accrued expenses	27,579
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 185,871</u></u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

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

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
Assets:			
Cash and cash equivalents	\$ 8,110	\$ -	\$ 81,711
Investments	1,717,601	205,578	-
Receivables	-	119,187	-
Total Assets	<u>1,725,711</u>	<u>324,765</u>	<u>81,711</u>
Liabilities:			
Other liabilities	-	125	81,711
Total Liabilities	<u>-</u>	<u>125</u>	<u>\$ 81,711</u>
Net Position:			
Held in trust for other postemployment benefits	1,725,711	-	
Held in trust for private purposes	-	324,640	
Total Net Position	<u>\$ 1,725,711</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, 2014

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
	<u> </u>	<u> </u>
Additions		
Contributions:		
Employer	\$ 162,128	\$ -
Employee	27,606	-
Total contributions	<u>189,734</u>	<u>-</u>
Investment income:		
Interest and dividends	<u>180,998</u>	<u>1,089</u>
Total Additions	<u>370,732</u>	<u>1,089</u>
Deductions		
Life and health insurance premiums paid for retirees	55,213	-
Health and human services	<u>-</u>	<u>1,078</u>
Total Deductions	<u>55,213</u>	<u>1,078</u>
Change in Net Position	315,519	11
Net Position - Beginning of Year	<u>1,410,192</u>	<u>324,629</u>
Net Position - End of Year	<u><u>\$ 1,725,711</u></u>	<u><u>\$ 324,640</u></u>

See accompanying notes to basic financial statements.

TOWN OF WEST NEWBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 2014, the Town's share of the operating, capital and debt service expenses was \$6,675,574. 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

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

Additionally, any other governmental 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, regardless of the timing of related cash flows. 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.

Library Trust Fund – 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 Town’s public library.

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 amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

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

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

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

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

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

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

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 \$985,119 at June 30, 2014 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 \$192,045 at June 30, 2014 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 \$12,565 of encumbrances from normal purchasing activity in the general fund as assigned and \$864,092 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 Fund	Community Preservation Act Fund	Library Trust Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Nonexpendable trust funds	\$ -	\$ -	\$ 7,500	\$ -	\$ 7,500
Restricted:					
General government	-	-	-	704,848	704,848
Health and human services	-	-	-	235,048	235,048
Culture and recreation	-	-	940,321	108,845	1,049,166
Community preservation	-	2,086,602	-	-	2,086,602
Other purposes	23,601	-	-	31,461	55,062
Committed:					
Education	391,235	-	-	-	391,235
Public works	447,249	-	-	-	447,249
Other purposes	25,608	-	-	-	25,608
Assigned:					
Purchase orders	12,565	-	-	-	12,565
Subsequent years' budget	196,548	-	-	-	196,548
Unassigned	2,834,776	-	-	-	2,834,776
	<u>\$ 3,931,582</u>	<u>\$ 2,086,602</u>	<u>\$ 947,821</u>	<u>\$ 1,080,202</u>	<u>\$ 8,046,207</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 \$7,668,287 and the bank balance was \$7,641,803. Of the Town’s bank balance, \$2,919,965 was covered by either federal depository insurance or by the depositors’ insurance fund; \$3,909,425 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 \$1,204,375 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 \$443,715, corporate bond holdings totaling \$170,698, and mutual fund investments totaling \$1,868,231 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

At June 30, 2014, 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	\$ 443,715	\$ -	\$ -	\$ 443,715
A1	-	96,246	-	96,246
Not rated	-	74,452	560,848	635,300
Totals	<u>\$ 443,715</u>	<u>\$ 170,698</u>	<u>\$ 560,848</u>	<u>\$ 1,175,261</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, 2014, the Town had the following investments:

	Fair Value Total	Time Until Maturity (In Years)	
		Category <1	Category 1 - 5
U.S. Government obligations	\$ 443,715	\$ -	\$ 443,715
Corporate bonds	170,698	-	170,698
Certificates of deposit	560,848 *	160,409	400,439
	<u>1,175,261</u>	<u>\$ 160,409</u>	<u>\$ 1,014,852</u>
Investments not subject to categorization:			
Mutual funds	1,868,231		
State Treasurer's Pool (MMDT)	1,204,375		
Money market mutual funds	<u>50,274</u>		
	<u>3,122,880</u>		
Total investments	<u><u>\$ 4,298,141</u></u>		

* 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	\$ 67,038	\$ -	\$ 67,038
Tax liens, deferrals and foreclosures	59,975	-	59,975
Excise	40,057	-	40,057
Community preservation surcharges	1,334	-	1,334
Title V betterments	71,784	-	71,784
Intergovernmental	32,598	-	32,598
Total	<u><u>\$ 272,786</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 272,786</u></u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water - user fees	\$ 200,912	\$ -	\$ 200,912
Total	<u>\$ 200,912</u>	<u>\$ -</u>	<u>\$ 200,912</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 67,038	\$ -	\$ 67,038
Tax liens, deferrals and foreclosures	59,902	73	59,975
Excise	40,057	-	40,057
Community preservation surcharges	-	1,334	1,334
Title V betterments	-	71,784	71,784
Total	<u>\$ 166,997</u>	<u>\$ 73,191</u>	<u>\$ 240,188</u>

Betterments – Unapportioned Title V betterments of \$71,782 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, 2014, are summarized as follows:

	Transfers In		
	Nonmajor		
	General	Governmental	
Transfers Out	Fund	Funds	Total
General Fund	\$ -	\$ 593	\$ 593 (1)
Library Trust Fund	-	10,000	10,000 (1)
Nonmajor Governmental Funds	232,785	-	232,785 (2)
Water Enterprise Fund	45,322	-	45,322 (3)
Total	<u>\$ 278,107</u>	<u>\$ 10,593</u>	<u>\$ 288,700</u>

(1) Transfers to nonmajor governmental funds for grant deficits and for library projects.

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

(3) Transfers to general fund for indirect costs.

D. Capital Assets

Capital asset activity for the year ended June 30, 2014, 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	713,785	535,163	(155,472)	1,093,476
Total capital assets not being depreciated	10,167,267	535,163	(155,472)	10,546,958
Capital assets being depreciated:				
Buildings	12,406,694	175,754	-	12,582,448
Improvements other than buildings	1,508,650	59,724	-	1,568,374
Infrastructure	7,478,761	447,168	-	7,925,929
Machinery and equipment	796,814	-	-	796,814
Vehicles	2,803,308	91,369	-	2,894,677
Total capital assets being depreciated	24,994,227	774,015	-	25,768,242
Less accumulated depreciation for:				
Buildings	(5,506,207)	(311,564)	-	(5,817,771)
Improvements other than buildings	(1,175,782)	(61,127)	-	(1,236,909)
Infrastructure	(2,113,227)	(129,336)	-	(2,242,563)
Machinery and equipment	(505,770)	(34,672)	-	(540,442)
Vehicles	(1,761,565)	(197,254)	-	(1,958,819)
Total accumulated depreciation	(11,062,551)	(733,953)	-	(11,796,504)
Total capital assets being depreciated, net	13,931,676	40,062	-	13,971,738
Total governmental activities capital assets, net	<u>\$ 24,098,943</u>	<u>\$ 575,225</u>	<u>\$ (155,472)</u>	<u>\$ 24,518,696</u>
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 395,662	\$ -	\$ -	\$ 395,662
Construction in process	214,789	16,552	(144,595)	86,746
Total capital assets not being depreciated	610,451	16,552	(144,595)	482,408
Capital assets being depreciated:				
Infrastructure	4,732,160	144,595	-	4,876,755
Improvements other than buildings	5,570	-	-	5,570
Machinery and equipment	92,360	4,375	-	96,735
Vehicles	66,838	-	-	66,838
Total capital assets being depreciated	4,896,928	148,970	-	5,045,898
Less accumulated depreciation for:				
Infrastructure	(2,448,483)	(77,746)	-	(2,526,229)
Improvements other than buildings	(5,292)	(279)	-	(5,571)
Machinery and equipment	(59,217)	(7,738)	-	(66,955)
Vehicles	(66,838)	-	-	(66,838)
Total accumulated depreciation	(2,579,830)	(85,763)	-	(2,665,593)
Total capital assets being depreciated, net	2,317,098	63,207	-	2,380,305
Total business-type activities capital assets, net	<u>\$ 2,927,549</u>	<u>\$ 79,759</u>	<u>\$ (144,595)</u>	<u>\$ 2,862,713</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 89,589	Water	<u>\$ 85,763</u>
Public safety	245,032		
Education	93,044		
Public works	230,361		
Health and human services	17,071		
Culture and recreation	58,856		
	<u>\$ 733,953</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>(402,061)</u>
Total	<u>\$ 328,958</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2014, are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2015	\$ 44,781
2016	44,782
2017	44,781
2018	44,782
2019	44,781
2020	<u>44,782</u>
Total minimum lease payments	268,689
Less: amounts representing interest	<u>(28,096)</u>
Present value of minimum lease payments	<u>\$ 240,593</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, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 5,256,210	\$ -	\$ (756,192)	\$ 4,500,018	\$ 746,192
Capital lease obligations	276,392	-	(35,799)	240,593	36,962
Compensated absences	89,912	10,990	(11,342)	89,560	13,434
Total Governmental Activities	\$ 5,622,514	\$ 10,990	\$ (803,333)	\$ 4,830,171	\$ 796,588
<i>Business-type Activities: Water</i>					
Bond and note debt	\$ 108,261	\$ -	\$ (12,029)	\$ 96,232	\$ 12,029
Compensated absences	5,968	2,199	(2,984)	5,183	2,591
Total Business-type Activities	\$ 114,229	\$ 2,199	\$ (15,013)	\$ 101,415	\$ 14,620

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, 2014:

Description of Issue	Interest Rate	Outstanding June 30, 2013	Issuances	Maturities	Outstanding June 30, 2014
<i><u>Governmental Activities:</u></i>					
General Obligation Bonds	2.00 - 4.00%	\$ 4,500,000	\$ -	\$ (585,000)	\$ 3,915,000
Refunding Bonds	2.00 - 3.00%	545,000	-	(150,000)	395,000
MWPAT Notes (Title V)	0.00 - 5.25%	211,210	-	(21,192)	190,018
Total Governmental Activities		<u>\$ 5,256,210</u>	<u>\$ -</u>	<u>\$ (756,192)</u>	<u>\$ 4,500,018</u>
<i><u>Business-Type Activities - Water</u></i>					
FHA Loan	5.00%	\$ 108,261	\$ -	\$ (12,029)	\$ 96,232
Total Business-Type Activities		<u>\$ 108,261</u>	<u>\$ -</u>	<u>\$ (12,029)</u>	<u>\$ 96,232</u>

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

<i>Governmental Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2015	\$ 746,192	\$ -	\$ 746,192	\$ 121,278	\$ (3,909)	\$ 117,369	\$ 863,561
2016	741,192	-	741,192	100,984	(3,215)	97,769	838,961
2017	601,192	-	601,192	77,615	(2,772)	74,843	676,035
2018	491,192	-	491,192	57,172	(2,204)	54,968	546,160
2019	461,192	-	461,192	43,204	(1,635)	41,569	502,761
2020 - 2024	1,448,694	-	1,448,694	85,632	(1,646)	83,986	1,532,680
2025	10,364	-	10,364	-	-	-	10,364
Total	<u>\$ 4,500,018</u>	<u>\$ -</u>	<u>\$ 4,500,018</u>	<u>\$ 485,885</u>	<u>\$ (15,381)</u>	<u>\$ 470,504</u>	<u>\$ 4,970,522</u>
<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
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	12,029	-	12,029	2,406	-	2,406	14,435
2020 - 2023	36,087	-	36,087	3,609	-	3,609	39,696
Total	<u>\$ 96,232</u>	<u>\$ -</u>	<u>\$ 96,232</u>	<u>\$ 21,653</u>	<u>\$ -</u>	<u>\$ 21,653</u>	<u>\$ 117,885</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 \$15,381 until the maturity of these agreements.

Authorized and Unissued Debt – The Town did not have any authorized and unissued debt as of June 30, 2014.

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 Essex Regional Retirement Board (the “Board”).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC) that includes financial statements and required supplementary information. The report may be obtained by writing to the 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, 2014, 2013, and 2012 were \$472,090, \$451,753 and \$420,272, 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 \$83,204 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)	\$ 49,487
Contributions made	<u>(162,128)</u>
Increase in net OPEB (asset) obligation	(112,641)
Net OPEB (asset) obligation at beginning of year	<u>(160,149)</u>
Net OPEB (asset) obligation at end of year	<u>\$ (272,790)</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 (Asset)
June 30, 2012	\$ 276,696	121%	(\$ 58,447)
June 30, 2013	\$ 202,407	150%	(\$ 160,149)
June 30, 2013	\$ 49,487*	328%	(\$ 272,790)

* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2014 was charged to the following functional programs: General Government \$8,045; Public Safety \$24,551; Public Works \$5,860; Health and Human Services \$2,141; Culture and Recreation \$3,100 and Water \$5,790.

Funding Status and Funding Progress – The funded status of the Plan for the most recent actuarial valuation performed as of July 1, 2013, 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, 2014, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2014.

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

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

F. Restatement of Prior Year Balances

	Library Trust Fund	Non-major Governmental
Prior year as presented	\$ -	\$ 2,060,348
Reclassify from Nonmajor	810,379	(810,379)
As restated	<u>\$ 810,379</u>	<u>\$ 1,249,969</u>

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

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

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

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

B. Future Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 become effective for the Essex Regional Retirement System as of December 31, 2014 and the correlative impact will be reflected by the Town in fiscal year 2015 through GASB 68 (see below). The Town believes the adoption of this statement will have a material effect on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town believes the adoption of this statement will have a material impact on the financial statements.

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

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

**TOWN OF WEST NEWBURY, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

**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
2014	\$ 24,592,599	\$ 24,592,599	100.0%	\$ 472,090	1.9%
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%

Other Post Employment Benefits

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2014	\$ 49,487	\$ 162,128	328%
2013	202,407	304,109	150%
2012	276,696	335,813	121%

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, 2014

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Positive
	Budget	Budget	Amounts		Adjusted	(Negative)
Revenues						
Real estate and personal property taxes, net	\$ 11,661,061	\$ 11,661,061	\$ 11,877,868	\$ -	\$ 11,877,868	\$ 216,807
Intergovernmental	334,702	334,702	382,337	-	382,337	47,635
Motor vehicle and other excises	526,100	526,100	641,982	-	641,982	115,882
Departmental and other revenue	157,028	157,028	186,031	-	186,031	29,003
Licenses and permits	120,000	120,000	197,550	-	197,550	77,550
Penalties and interest on taxes	45,000	45,000	61,269	-	61,269	16,269
Fines and forfeitures	15,000	15,000	25,859	-	25,859	10,859
Investment income	13,000	13,000	15,227	-	15,227	2,227
Total Revenues	12,871,891	12,871,891	13,388,123	-	13,388,123	516,232
Expenditures						
General government	1,019,442	1,019,442	854,174	855	855,029	164,413
Public safety	1,699,940	1,699,940	1,502,200	6,739	1,508,939	191,001
Education	7,274,996	7,274,996	6,883,761	391,235	7,274,996	-
Public works	1,890,677	1,890,677	1,431,450	451,999	1,883,449	7,228
Health and human services	537,161	537,161	482,163	25,829	507,992	29,169
Culture and recreation	365,068	365,068	358,247	-	358,247	6,821
Pensions and fringe benefits	829,858	829,858	779,934	-	779,934	49,924
State and county tax assessments	121,040	121,040	121,354	-	121,354	(314)
Debt service	851,800	851,800	851,800	-	851,800	-
Total Expenditures	14,589,982	14,589,982	13,265,083	\$ 876,657	14,141,740	448,242
Other Financing Sources (Uses)						
Transfers in	372,362	372,362	372,362		372,362	-
Transfers out	(450,593)	(450,593)	(450,593)		(450,593)	-
Total Other Financing Sources (Uses)	(78,231)	(78,231)	(78,231)		(78,231)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses						
Of Prior Year Budgetary Fund Balance	(1,796,322)	(1,796,322)	\$ 44,809		\$ (831,848)	\$ 964,474
Other Budgetary Items						
Use of free cash (unassigned fund balance)	1,131,601	1,131,601				
Prior year encumbrances	664,721	664,721				
	\$ -	\$ -				

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, 2014

I. Budgetary Basis of Accounting

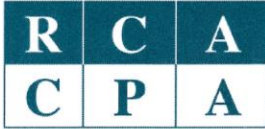
Budgetary Information – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and Finance Committee and approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level. Department 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 2014, 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, 2014, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 13,388,123
MTRS revenue recognition	\$ 83,204	\$ -	83,204
Stabilization interest - GASB 54 impact	-	4,132	4,132
Revenues on a GAAP basis	<u>\$ 83,204</u>	<u>\$ 4,132</u>	<u>\$ 13,475,459</u>
 Expenditures on a budgetary basis			 \$ 13,266,270
MTRS expenditure recognition	\$ 83,204	\$ -	83,204
Expenditures on a GAAP basis	<u>\$ 83,204</u>	<u>\$ -</u>	<u>\$ 13,349,474</u>
 Net transfers on a budgetary basis			 \$ (77,638)
Stabilization transfers - GASB 54 impact	\$ -	243,000	243,000
Transfers not budgeted	112,745	-	112,745
Net transfers on a GAAP basis	<u>\$ 112,745</u>	<u>\$ -</u>	<u>\$ 278,107</u>



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**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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 7, 2015.

Internal Control Over Financial Reporting

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

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. We consider the deficiencies described as items 2014 – 01 and 2014 – 02 in the accompanying schedule of findings to be a material weaknesses. 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, other material weaknesses or significant deficiencies 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
January 7, 2015

**TOWN OF WEST NEWBURY, MASSACHUSETTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS
YEAR ENDED JUNE 30, 2014**

Finding

2014-01.

Type: Material Weakness, Deficiency in internal control

Area: Bank Reconciliations

Criteria: Bank reconciliations should be completed periodically to ensure that transactions are recorded in accordance with the objectives of management.

Statement of Condition: Bank reconciliations were not completed for most of the fiscal year until subsequent to year-end.

Cause and Effect: Policies regarding the preparation of monthly bank reconciliations are not enforced. A variance of approximately \$48,000 exists as a result.

Recommendation: Take the necessary steps to create a monthly bank reconciliation process.

Corrective Action Plan: A new Finance Director was appointed during fiscal 2015. A process will be developed to ensure that bank reconciliations are completed monthly.

2014-02.

Type: Material Weakness, Deficiency in internal control

Area: Cash reconciliation between the Finance Director and Town Accountant

Criteria: Cash reconciliations should be completed periodically to ensure that transactions are recorded in accordance with the objectives of management.

Statement of Condition: Cash reconciliations were not completed for most of the fiscal year until subsequent to year-end.

Cause and Effect: Policies regarding the preparation of monthly cash reconciliations are not enforced. A variance of approximately \$48,000 exists as a result.

Recommendation: Take the necessary steps to create a monthly cash reconciliation process.

Corrective Action Plan: A new Finance Director and Town Accountant were appointed during fiscal 2015. A process will be developed to ensure that cash reconciliations are completed monthly.