

TOWN OF SHARON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Sharon, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sharon, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Melanson Heath

June 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sharon, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide

financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations, which is considered to be a major fund.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$92,294,004 (i.e., net position), a change of \$(426,918) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$13,324,535, a change of \$4,350,541 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$991,405, a change of \$217,285 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$56,122,363, a change of \$3,440,299 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 25,654	\$ 23,806	\$ 3,287	\$ 2,119	\$ 28,941	\$ 25,925
Capital assets	<u>142,092</u>	<u>142,197</u>	<u>9,894</u>	<u>9,139</u>	<u>151,986</u>	<u>151,336</u>
Total assets and deferred outflows	167,746	166,003	13,181	11,258	180,927	177,261
Long-term liabilities outstanding	72,269	66,007	2,395	931	74,664	66,938
Other liabilities	<u>13,803</u>	<u>17,290</u>	<u>166</u>	<u>312</u>	<u>13,969</u>	<u>17,602</u>
Total liabilities	86,072	83,297	2,561	1,243	88,633	84,540
Net position:						
Net investment in capital assets	89,594	87,140	7,624	8,374	97,218	95,514
Restricted	9,535	8,303	-	-	9,535	8,303
Unrestricted	<u>(17,455)</u>	<u>(12,737)</u>	<u>2,996</u>	<u>1,641</u>	<u>(14,459)</u>	<u>(11,096)</u>
Total net position	<u>\$ 81,674</u>	<u>\$ 82,706</u>	<u>\$ 10,620</u>	<u>\$ 10,015</u>	<u>\$ 92,294</u>	<u>\$ 92,721</u>

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,718	\$ 6,439	\$ 3,203	\$ 2,850	\$ 9,921	\$ 9,289
Operating grants and contributions	16,828	16,607	-	-	16,828	16,607
Capital grants and contributions	2,881	4,624	-	-	2,881	4,624
General revenues:						
Property taxes	56,343	55,389	-	-	56,343	55,389
Excises	2,780	2,626	-	-	2,780	2,626
Penalties and interest on taxes	285	296	-	-	285	296
Grants and contributions not restricted to specific programs	1,385	1,302	-	-	1,385	1,302
Investment income	121	98	-	-	121	98
Other	<u>345</u>	<u>221</u>	<u>-</u>	<u>-</u>	<u>345</u>	<u>221</u>
Total revenues	<u>87,686</u>	<u>87,602</u>	<u>3,203</u>	<u>2,850</u>	<u>90,889</u>	<u>90,452</u>
Expenses:						
General government	2,145	2,290	-	-	2,145	2,290
Public safety	7,309	6,490	-	-	7,309	6,490
Education	56,561	54,350	-	-	56,561	54,350
Public works	5,177	4,866	-	-	5,177	4,866
Human services	972	843	-	-	972	843
Culture and recreation	1,577	1,285	-	-	1,577	1,285
Employee benefits	12,167	12,365	-	-	12,167	12,365
Interest on long-term debt	2,050	2,095	-	-	2,050	2,095
Intergovernmental	760	753	-	-	760	753
Miscellaneous	-	836	-	-	-	836
Water operations	<u>-</u>	<u>-</u>	<u>2,598</u>	<u>2,740</u>	<u>2,598</u>	<u>2,740</u>
Total expenses	<u>88,718</u>	<u>86,173</u>	<u>2,598</u>	<u>2,740</u>	<u>91,316</u>	<u>88,913</u>
Change in net assets before transfers	(1,032)	1,429	605	110	(427)	1,539
Transfers in (out)	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10)</u>
Change in net position	(1,032)	1,419	605	110	(427)	1,529
Net position - beginning of year	<u>82,706</u>	<u>81,287</u>	<u>10,015</u>	<u>9,905</u>	<u>92,721</u>	<u>91,192</u>
Net position - end of year	<u>\$ 81,674</u>	<u>\$ 82,706</u>	<u>\$ 10,620</u>	<u>\$ 10,015</u>	<u>\$ 92,294</u>	<u>\$ 92,721</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$92,294,004, a change of \$(426,918) from the prior year.

The largest portion of net position \$97,218,200 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$9,534,801 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$(14,458,997).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,032,144). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,564,474)
Major chapter 90 fund - accrual basis	425,065
Nonmajor fund - accrual basis	9,251,265
Internal service fund operating results	1,400,444
Principal debt service in excess of depreciation expense	1,531,076
Other post employment benefits liability	(4,053,871)
Other GAAP accruals	<u>(8,021,649)</u>
Total	<u>\$ (1,032,144)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$605,226 which is due to operating costs exceeding user fee revenue.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$13,324,535, a change of \$4,350,541 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (1,564,474)
Major chapter 90 fund operating results	48,264
Nonmajor fund operating results	<u>5,866,751</u>
Total	<u>\$ 4,350,541</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$991,405, while total fund balance was \$2,245,915. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance*	\$ 991,405	\$ 774,120	\$ 217,285	1.3%
Total fund balance	\$ 2,245,915	\$ 3,810,389	\$ (1,564,474)	2.9%

* These figures include the general stabilization fund

The total fund balance of the general fund changed by \$(1,564,474) during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 398,196
Expenditures less than budget	269,487
Use of free cash and overlay surplus as a funding source	(1,644,070)
Shortfall of tax collection	(681,963)
Expenditures prior year encumbrances in excess of current year	(256,473)
Change in stabilization	300,145
Other	<u>50,204</u>
Total	<u>\$ (1,564,474)</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 400,523	\$ 100,378	\$ 300,145

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,995,899, a change of \$1,355,371 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no major differences between the original budget and the final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$151,985,844 (net of accumulated depreciation), a change of \$650,045 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- \$1,049,180 – Glendale Road and Massapoag Avenue water main replacement
- \$563,456 – Construction in progress for the middle school

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$56,122,363, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Sharon's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Finance Director
Town of Sharon, Massachusetts
90 Main Street
Sharon, Massachusetts 02067

TOWN OF SHARON, MA
STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 8,284,809	\$ 1,969,005	\$ 10,253,814
Investments	12,028,779	148,348	12,177,127
Receivables, net of allowance for uncollectibles:			
Property taxes	1,213,694	-	1,213,694
Excises	110,402	-	110,402
User fees	192,837	1,107,019	1,299,856
Intergovernmental and other	3,187,937	63,427	3,251,364
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	607,783	-	607,783
Betterments	27,555	-	27,555
Capital assets:			
Land and construction in progress	64,507,665	1,929,982	66,437,647
Other capital assets, net of accumulated depreciation	<u>77,584,597</u>	<u>7,963,600</u>	<u>85,548,197</u>
TOTAL ASSETS AND DEFERRED			
OUTFLOWS OF RESOURCES	167,746,058	13,181,381	180,927,439
LIABILITIES			
Current:			
Warrants payable	886,908	-	886,908
Accounts payable	1,791,681	-	1,791,681
Accrued liabilities	3,143,438	-	3,143,438
Other current liabilities	1,640,974	-	1,640,974
Current portion of long-term liabilities:			
Bonds payable	6,144,197	164,500	6,308,697
Compensated absence	137,685	2,132	139,817
Landfill closure	25,000	-	25,000
Capital lease	33,387	-	33,387
Noncurrent:			
Bonds payable, net of current portion	47,708,666	2,105,000	49,813,666
Compensated absence, net of current portion	2,616,020	40,501	2,656,521
Landfill closure, net of current portion	425,000	-	425,000
Accrued other post employment benefits	21,177,794	249,267	21,427,061
Capital lease, net of current portion	<u>341,285</u>	<u>-</u>	<u>341,285</u>
TOTAL LIABILITIES AND DEFERRED			
INFLOWS OF RESOURCES	86,072,035	2,561,400	88,633,435
NET POSITION			
Net investment in capital assets	89,594,118	7,624,082	97,218,200
Restricted for:			
Grants and other statutory restrictions	9,111,217	-	9,111,217
Permanent funds:			
Nonexpendable	43,071	-	43,071
Expendable	380,513	-	380,513
Unrestricted	<u>(17,454,896)</u>	<u>2,995,899</u>	<u>(14,458,997)</u>
TOTAL NET POSITION	<u>\$ 81,674,023</u>	<u>\$ 10,619,981</u>	<u>\$ 92,294,004</u>

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

TOWN OF SHARON, MA
GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Chapter 90 Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 42,258	\$ (456,927)	\$ 7,119,157	\$ 6,704,488
Investments	8,185,868	-	3,842,911	12,028,779
Receivables:				
Property taxes	2,031,906	-	-	2,031,906
Excises	159,434	-	-	159,434
Departmental	1,100	-	33,654	34,754
Intergovernmental	90,497	2,091,244	1,133,503	3,315,244
Other assets	827	-	-	827
TOTAL ASSETS	<u>\$ 10,511,890</u>	<u>\$ 1,634,317</u>	<u>\$ 12,129,225</u>	<u>\$ 24,275,432</u>
LIABILITIES				
Warrants payable	\$ 886,908	\$ -	\$ -	\$ 886,908
Accounts payable	1,426,405	31,861	333,415	1,791,681
Accrued liabilities	2,774,324	-	-	2,774,324
Deferred revenues	-	1,634,317	-	1,634,317
Other liabilities	1,073,873	-	552	1,074,425
TOTAL LIABILITIES	6,161,510	1,666,178	333,967	8,161,655
DEFERRED INFLOWS OF RESOURCES	2,104,465	-	684,777	2,789,242
FUND BALANCES				
Nonspendable	-	-	43,070	43,070
Restricted	437,609	-	9,625,239	10,062,848
Committed	169,064	-	2,368,282	2,537,346
Assigned	647,837	-	-	647,837
Unassigned	991,405	(31,861)	(926,110)	33,434
TOTAL FUND BALANCES	<u>2,245,915</u>	<u>(31,861)</u>	<u>11,110,481</u>	<u>13,324,535</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 10,511,890</u>	<u>\$ 1,634,317</u>	<u>\$ 12,129,225</u>	<u>\$ 24,275,432</u>

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

TOWN OF SHARON, MA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 13,324,535
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	142,092,262
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,704,988
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	1,530,387
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(369,115)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable and OPEB liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(78,609,034)</u>
Net position of governmental activities	<u><u>\$ 81,674,023</u></u>

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

TOWN OF SHARON, MA

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	Chapter 90 <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Property taxes	\$ 55,345,003	\$ -	\$ 423,329	\$ 55,768,332
Excises	2,865,387	-	-	2,865,387
Penalties, interest, and other taxes	270,324	-	-	270,324
Charges for services	361,261	-	5,712,770	6,074,031
Intergovernmental	16,677,847	456,926	3,691,748	20,826,521
Licenses and permits	507,998	-	-	507,998
Fines and forfeitures	129,763	-	-	129,763
Investment income	121,312	-	48	121,360
Miscellaneous	<u>283,995</u>	<u>-</u>	<u>152,186</u>	<u>436,181</u>
Total Revenues	76,562,890	456,926	9,980,081	86,999,897
Expenditures:				
Current:				
General government	2,044,925	-	59,672	2,104,597
Public safety	6,443,764	-	905,931	7,349,695
Education	44,640,915	-	7,381,535	52,022,450
Public works	3,525,047	408,662	2,065,093	5,998,802
Health and human services	580,122	-	120,370	700,492
Culture and recreation	1,078,433	-	344,081	1,422,514
Employee benefits	12,156,715	-	-	12,156,715
Debt service	7,450,917	-	499	7,451,416
Intergovernmental	<u>760,175</u>	<u>-</u>	<u>-</u>	<u>760,175</u>
Total Expenditures	<u>78,681,013</u>	<u>408,662</u>	<u>10,877,181</u>	<u>89,966,856</u>
Excess (deficiency) of revenues over expenditures	(2,118,123)	48,264	(897,100)	(2,966,959)
Other Financing Sources (Uses):				
Bond proceeds	-	-	7,317,500	7,317,500
Transfers in	554,215	-	566	554,781
Transfers out	<u>(566)</u>	<u>-</u>	<u>(554,215)</u>	<u>(554,781)</u>
Total Other Financing Sources	<u>553,649</u>	<u>-</u>	<u>6,763,851</u>	<u>7,317,500</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,564,474)	48,264	5,866,751	4,350,541
Fund Equity, at Beginning of Year, as restated	<u>3,810,389</u>	<u>(80,125)</u>	<u>5,243,730</u>	<u>8,973,994</u>
Fund Equity, at End of Year	<u>\$ 2,245,915</u>	<u>\$ (31,861)</u>	<u>\$ 11,110,481</u>	<u>\$ 13,324,535</u>

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

TOWN OF SHARON, MA
 RECONCILIATION OF THE STATEMENT OF REVENUES
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds	\$	4,350,541																														
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Capital outlay purchases</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">3,761,315</td> </tr> <tr> <td>Capital outlay dispositions</td> <td></td> <td style="text-align: right;">(15,000)</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(3,850,625)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 396,703 • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Repayments of debt</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">5,381,701</td> </tr> <tr> <td>Issuance of debt</td> <td></td> <td style="text-align: right;">(7,317,500)</td> </tr> <tr> <td>Repayment of capital lease</td> <td></td> <td style="text-align: right;">17,461</td> </tr> <tr> <td>Addition to capital lease</td> <td></td> <td style="text-align: right;">(392,133)</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 19,292 • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Compensated absences</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(755,472)</td> </tr> <tr> <td>Net OPEB obligation</td> <td></td> <td style="text-align: right;">(4,053,871)</td> </tr> <tr> <td>Landfill</td> <td></td> <td style="text-align: right;">25,000</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <u>1,400,444</u> 			Capital outlay purchases		3,761,315	Capital outlay dispositions		(15,000)	Depreciation		(3,850,625)	Repayments of debt		5,381,701	Issuance of debt		(7,317,500)	Repayment of capital lease		17,461	Addition to capital lease		(392,133)	Compensated absences		(755,472)	Net OPEB obligation		(4,053,871)	Landfill		25,000
Capital outlay purchases		3,761,315																														
Capital outlay dispositions		(15,000)																														
Depreciation		(3,850,625)																														
Repayments of debt		5,381,701																														
Issuance of debt		(7,317,500)																														
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Addition to capital lease		(392,133)																														
Compensated absences		(755,472)																														
Net OPEB obligation		(4,053,871)																														
Landfill		25,000																														
Change in net position of governmental activities	\$	<u>(1,032,144)</u>																														

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

TOWN OF SHARON, MA

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 56,026,966	\$ 56,026,966	\$ 56,026,966	\$ -
Excise	2,582,000	2,582,000	2,865,387	283,387
Penalties, interest, and other taxes	319,778	319,778	270,324	(49,454)
Charges for services	335,000	335,000	361,261	26,261
Intergovernmental	10,142,035	10,142,035	10,239,130	97,095
Licenses and permits	542,000	542,000	507,998	(34,002)
Fines and forfeits	107,000	107,000	129,763	22,763
Investment income	100,000	100,000	121,312	21,312
Miscellaneous	180,956	180,956	211,790	30,834
Transfers in	554,215	554,215	554,215	-
Use of overlay surplus	144,070	144,070	144,070	-
Use of fund balance (free cash)	1,500,000	1,500,000	1,500,000	-
Total Revenues and Other Sources	72,534,020	72,534,020	72,932,216	398,196
Expenditures and Other Uses:				
General government	2,435,899	2,125,302	2,080,937	44,365
Public safety	6,392,997	6,392,997	6,389,069	3,928
Education	38,059,984	38,059,984	37,908,667	151,317
Public works	3,233,655	3,515,205	3,554,064	(38,859)
Health and human services	564,417	593,464	583,797	9,667
Culture and recreation	1,091,608	1,091,608	1,065,295	26,313
Debt service	7,338,461	7,338,461	7,450,917	(112,456)
Intergovernmental	801,885	801,885	760,175	41,710
Employee benefits	12,315,114	12,315,114	12,171,046	144,068
Transfers out	300,000	300,000	300,566	(566)
Total Expenditures and Other Uses	72,534,020	72,534,020	72,264,533	269,487
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 667,683	\$ 667,683

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

TOWN OF SHARON, MA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	<u>Governmental</u> <u>Activities</u>
	<u>Water</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
ASSETS		
Current:		
Cash and short-term investments	\$ 1,969,005	\$ 1,580,321
Investments	148,348	-
User fees, net of allowance for uncollectibles	1,107,019	-
Other receivables	<u>63,427</u>	<u>516,614</u>
Total current assets	3,287,799	2,096,935
Noncurrent:		
Capital assets:		
Land and construction in progress	1,929,982	-
Other capital assets, net of accumulated depreciation	<u>7,963,600</u>	<u>-</u>
Total noncurrent assets	<u>9,893,582</u>	<u>-</u>
TOTAL ASSETS	13,181,381	2,096,935
LIABILITIES		
Current:		
Accrued liabilities	-	566,548
Current portion of long-term liabilities:		
Bonds payable	164,500	-
Compensated absence	<u>2,132</u>	<u>-</u>
Total current liabilities	166,632	566,548
Noncurrent:		
Bonds payable, net of current portion	2,105,000	-
Compensated absence, net of current portion	40,501	-
Net OPEB obligation	<u>249,267</u>	<u>-</u>
Total noncurrent liabilities	<u>2,394,768</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED	2,561,400	566,548
NET POSITION		
Net investment in capital asaset	7,624,082	-
Unrestricted	<u>2,995,899</u>	<u>1,530,387</u>
TOTAL NET POSITION	<u>\$ 10,619,981</u>	<u>\$ 1,530,387</u>

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

TOWN OF SHARON, MA

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Water <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 3,158,764	\$ -
Employee and employer contributions	-	11,084,078
Miscellaneous	<u>44,056</u>	<u>-</u>
Total Operating Revenues	3,202,820	11,084,078
Operating Expenses:		
Operating expenses	2,121,716	-
Depreciation	437,414	-
Employee benefits	<u>-</u>	<u>9,683,798</u>
Total Operating Expenses	<u>2,559,130</u>	<u>9,683,798</u>
Operating Income	643,690	1,400,280
Nonoperating Revenues (Expenses):		
Interest expense	(38,464)	-
Investment income	<u>-</u>	<u>164</u>
Total Nonoperating Revenues (Expenses), Net	<u>(38,464)</u>	<u>164</u>
Change in Net Position	605,226	1,400,444
Net Position at Beginning of Year	<u>10,014,755</u>	<u>129,943</u>
Net Position at End of Year	<u>\$ 10,619,981</u>	<u>\$ 1,530,387</u>

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

TOWN OF SHARON, MA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Water <u>Fund</u>	Internal Service <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 2,961,715	\$ 11,305,162
Payments to vendors and employees	<u>(2,052,680)</u>	<u>(9,780,021)</u>
Net Cash Provided By Operating Activities	909,035	1,525,141
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Proceeds of bond anticipation notes	(255,000)	-
Proceeds of bonds	1,504,500	-
Interest expense	(38,463)	-
Acquisition and construction of capital assets	<u>(1,191,770)</u>	<u>-</u>
Net Cash Provided By Capital and Related Financing Activities	19,267	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	-	164
Investment purchases	<u>(148,348)</u>	<u>-</u>
Net Cash Provided By (Used For) Investing Activities	<u>(148,348)</u>	<u>164</u>
Net Change in Cash and Short-Term Investments	779,954	1,525,305
Cash and Short-Term Investments, Beginning of Year	<u>1,189,051</u>	<u>55,016</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,969,005</u>	<u>\$ 1,580,321</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income	\$ 643,690	\$ 1,400,280
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	437,414	-
Changes in assets and liabilities:		
User fees	(177,678)	-
Other receivables	(63,427)	221,084
Accrued liabilities	-	(96,223)
Accrued other post employment benefits	61,169	-
Other liabilities	<u>7,867</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 909,035</u>	<u>\$ 1,525,141</u>

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

TOWN OF SHARON, MA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 6,719	\$ -
Investments	101,892	243,295
Cash held by others	<u>-</u>	<u>50,111</u>
Total Assets	108,611	293,406
 <u>LIABILITIES</u>		
Other liabilities	<u>-</u>	<u>293,406</u>
Total Liabilities	<u>-</u>	<u>293,406</u>
 <u>NET POSITION</u>		
Total net assets	\$ <u><u>108,611</u></u>	\$ <u><u>-</u></u>

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

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 2,300
Investment income	259
Miscellaneous revenues	<u>2,825</u>
Total additions	5,384
Deductions:	
Miscellaneous expenditures	<u>2,299</u>
Total deductions	<u>2,299</u>
Net increase	3,085
Net position:	
Beginning of year	<u>105,526</u>
End of year	<u><u>\$ 108,611</u></u>

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

TOWN OF SHARON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *chapter 90 fund* accounts for funds used in the construction of, and renovations to, highways and streets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with

a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary fund:

- Water operations

The *self-insured employee health program* is reported as an internal service fund in the accompanying financial statements.

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$3,081,536.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. *Use of Estimates*

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

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

A. *Budgetary Information*

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

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

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 76,562,890	\$ 78,681,013
Other financing sources/uses (GAAP basis)	<u>554,215</u>	<u>566</u>
Subtotal (GAAP Basis)	77,117,105	78,681,579
Adjust tax revenue to accrual basis	681,963	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(673,346)
Add end-of-year appropriation carryforwards from expenditures	-	416,873
To record use of free cash	1,500,000	-
To record use of overlay surplus	144,070	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(6,438,717)	(6,438,717)
To remove the effects of non-budgeted stabilization fund	(145)	300,000
Reclassification	<u>(72,060)</u>	<u>(21,856)</u>
Budgetary basis	<u>\$ 72,932,216</u>	<u>\$ 72,264,533</u>

D. Deficit Fund Equity

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

<u>Special Revenue Funds:</u>	
Police department grants MEMA	\$ (1,918)
Conservation advertising	(105)
Fire donation	(2,553)
 <u>Capital Projects Funds:</u>	
High school roof	(2,121)
Water rescue	(10,500)
DPW 2009 equipment	(83,000)
School capital 2009	(93,751)
FY10 computer/equipment	(732,162)
Chapter 90	<u>(31,861)</u>
	<u>\$ (957,971)</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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

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

As of June 30, 2014, \$7,246,761 of the Town's bank balances of \$11,459,616 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>Aaa</u>	<u>Not Rated</u>
U.S. Treasury bonds	\$ 306		\$ -	\$ 306	\$ -
Certificates of deposits	10,926	N/A	10,926	-	-
Corporate bonds	123		-	-	123
Corporate equities	164	N/A	164	-	-
Mutual funds	508	N/A	508	-	-
Federal agency securities	<u>495</u>		<u>-</u>	<u>495</u>	<u>-</u>
Total investments	<u>\$ 12,522</u>		<u>\$ 11,598</u>	<u>\$ 801</u>	<u>\$ 123</u>

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal

investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>1-5</u>	<u>N/A</u>
Debt Related Securities:			
U.S. Treasury bonds	\$ 306	\$ 306	\$ -
Certificates of deposit	10,926	10,926	-
Corporate bonds	123	123	-
Corporate equities	164	-	164
Mutual funds	508	-	508
Federal agency securities	495	495	-
Total	\$ <u>12,522</u>	\$ <u>11,850</u>	\$ <u>672</u>

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

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

Real Estate		
2014	\$ 621	
2013	6	
2012	<u>5</u>	632
Personal Property		
2014	14	
2013	15	
2012	<u>3</u>	32
Tax Liens		607
Deferred Taxes		<u>761</u>
Total		<u>\$ 2,032</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 211	\$ -
Excises	\$ 49	\$ -
Utilities	\$ -	\$ 19
Other	\$ 458	\$ -

7. Intergovernmental Receivables

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

8. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 82,130	\$ 436	\$ -	\$ 82,566
Machinery, equipment, and furnishings	14,922	1,378	-	16,300
Infrastructure	<u>21,999</u>	<u>473</u>	<u>-</u>	<u>22,472</u>
Total capital assets, being depreciated	119,051	2,287	-	121,338
Less accumulated depreciation for:				
Buildings and improvements	(24,811)	(2,530)	-	(27,341)
Machinery, equipment, and furnishings	(10,801)	(823)	-	(11,624)
Infrastructure	<u>(4,291)</u>	<u>(498)</u>	<u>-</u>	<u>(4,789)</u>
Total accumulated depreciation	<u>(39,903)</u>	<u>(3,851)</u>	<u>-</u>	<u>(43,754)</u>
Total capital assets, being depreciated, net	79,148	(1,564)	-	77,584
Capital assets, not being depreciated:				
Land	20,885	-	-	20,885
Construction in progress	<u>42,164</u>	<u>1,474</u>	<u>(15)</u>	<u>43,623</u>
Total capital assets, not being depreciated	<u>63,049</u>	<u>1,474</u>	<u>(15)</u>	<u>64,508</u>
Governmental activities capital assets, net	<u>\$ 142,197</u>	<u>\$ (90)</u>	<u>\$ (15)</u>	<u>\$ 142,092</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,104	\$ -	\$ -	\$ 1,104
Machinery, equipment, and furnishings	16,609	50	-	16,659
Infrastructure	<u>3,057</u>	<u>1,142</u>	<u>-</u>	<u>4,199</u>
Total capital assets, being depreciated	20,770	1,192	-	21,962
Less accumulated depreciation for:				
Buildings and improvements	(627)	(28)	-	(655)
Machinery, equipment, and furnishings	(12,625)	(340)	-	(12,965)
Infrastructure	<u>(309)</u>	<u>(69)</u>	<u>-</u>	<u>(378)</u>
Total accumulated depreciation	<u>(13,561)</u>	<u>(437)</u>	<u>-</u>	<u>(13,998)</u>
Total capital assets, being depreciated, net	7,209	755	-	7,964
Capital assets, not being depreciated:				
Land	<u>1,930</u>	<u>-</u>	<u>-</u>	<u>1,930</u>
Total capital assets, not being depreciated	<u>1,930</u>	<u>-</u>	<u>-</u>	<u>1,930</u>
Business-type activities capital assets, net	<u>\$ 9,139</u>	<u>\$ 755</u>	<u>\$ -</u>	<u>\$ 9,894</u>

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

Governmental Activities:	
General government	\$ 86
Public safety	297
Education	2,478
Public works	661
Culture and recreation	228
Health and human services	<u>101</u>
Total depreciation expense - governmental activities	<u>\$ 3,851</u>
Business-Type Activities:	
Water	<u>\$ 437</u>
Total depreciation expense - business-type activities	<u>\$ 437</u>

9. Warrants and Accounts Payable

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

10. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2024. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2014:

Fiscal <u>Year</u>	Capital <u>Leases</u>
2014	\$ 33,387
2015	34,678
2016	36,019
2017	37,412
2018	38,858
Thereafter	<u>194,318</u>
Total minimum lease payments	374,672
Less amounts representing interest	<u>(72,274)</u>
Present Value of Minimum Lease Payments	<u>\$ 302,398</u>

11. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Governmental Activities:</u>			
Municipal purpose loan	1/15/2018	4.60%	\$ 1,200,000
Municipal purpose loan	3/15/2018	4.44%	1,320,000
Septic loan	8/1/2018	0.00%	54,340
Septic loan	8/1/2019	0.00%	76,023
Municipal purpose loan	5/1/2021	4.27%	3,045,000
Municipal purpose loan	3/15/2022	3.99%	5,130,000
Municipal purpose loan	10/15/2014	2.88%	135,000
Municipal purpose loan of 2005	9/15/2025	4.00%	2,240,000
Municipal purpose loan of 2006	2/1/2026	4.00%	7,355,000
General obligation land acquisition	8/15/2017	6.25%	1,810,000
General obligation	8/30/2031	2.81%	21,935,000
General obligation	5/1/2027	1.81%	2,235,000
General obligation	10/15/2034	3.00%	<u>7,317,500</u>
Total Governmental Activities:			<u>\$ 53,852,863</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Business-Type Activities:</u>			
Water improvements	5/1/2027	1.81%	\$ 710,000
General obligation	10/15/2034	3.00%	<u>1,559,500</u>
Total Business-Type Activities:			<u>\$ 2,269,500</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,144,197	\$ 1,951,251	\$ 8,095,448
2016	5,971,697	1,726,924	7,698,621
2017	4,936,697	1,484,665	6,421,362
2018	4,701,697	1,279,126	5,980,823
2019	3,831,697	1,084,223	4,915,920
2020 - 2024	15,406,878	3,602,312	19,009,190
2025 - 2029	9,630,000	1,420,112	11,050,112
2030 - 2031	<u>3,230,000</u>	<u>212,893</u>	<u>3,442,893</u>
Total	<u>\$ 53,852,863</u>	<u>\$ 12,761,506</u>	<u>\$ 66,614,369</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 164,500	\$ 62,469	\$ 226,969
2016	160,000	58,152	218,152
2017	160,000	53,902	213,902
2018	155,000	49,226	204,226
2019	155,000	44,625	199,625
2020 - 2024	665,000	171,699	836,699
2025 - 2028	485,000	96,231	581,231
2029 - 2031	<u>325,000</u>	<u>32,094</u>	<u>357,094</u>
Total	<u>\$ 2,269,500</u>	<u>\$ 568,398</u>	<u>\$ 2,837,898</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 51,917	\$ 7,318	\$ (5,382)	\$ 53,853	\$ (6,144)	\$ 47,709
Other:						
Compensated absences	1,998	756	-	2,754	(138)	2,616
Landfill closure	475	-	(25)	450	(25)	425
Capital lease	-	392	(18)	374	(33)	341
Accrued other post- employment benefits	<u>17,124</u>	<u>4,054</u>	<u>-</u>	<u>21,178</u>	<u>-</u>	<u>21,178</u>
Totals	<u>\$ 71,514</u>	<u>\$ 12,520</u>	<u>\$ (5,425)</u>	<u>\$ 78,609</u>	<u>\$ (6,340)</u>	<u>\$ 72,269</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 765	\$ 1,560	\$ (55)	\$ 2,270	\$ (165)	\$ 2,105
Other:						
Compensated absences	35	8	-	43	(2)	41
Accrued other post- employment benefits	<u>188</u>	<u>61</u>	<u>-</u>	<u>249</u>	<u>-</u>	<u>249</u>
Totals	<u>\$ 988</u>	<u>\$ 1,629</u>	<u>\$ (55)</u>	<u>\$ 2,562</u>	<u>\$ (167)</u>	<u>\$ 2,395</u>

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid in future years, the Town reports a portion of these postclosure care costs as a liability in the financial statements in each period for the number of years remaining.

The landfill is closed and the Town has recognized a liability of \$450,000 based on what it would cost to perform all postclosure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	<u>General Fund</u>	<u>Nonmajor</u>
Unavailable revenue	\$ 2,104,465	\$ 684,777

14. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Governmental Funds - Balances

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 43,070	\$ 43,070
Total Nonspendable	-	-	43,070	43,070
Restricted				
Reserve for excluded debt	437,609	-	-	437,609
Special revenue funds	-	-	6,779,372	6,779,372
Capital project fund	-	-	2,465,354	2,465,354
Expendable permanent funds	-	-	380,513	380,513
Total Restricted	437,609	-	9,625,239	10,062,848
Committed				
Special articles				
General government	167,663	-	-	167,663
Public safety	401	-	-	401
Culture and recreation	1,000	-	-	1,000
Special revenue funds	-	-	2,368,282	2,368,282
Total Committed	169,064	-	2,368,282	2,537,346
Assigned				
Encumbrances				
General government	66,942	-	-	66,942
Public safety	2,598	-	-	2,598
Education	95,698	-	-	95,698
Public works	48,130	-	-	48,130
Health and human services	17,719	-	-	17,719
Culture and recreation	16,722	-	-	16,722
Reserve for overlay surplus	400,028	-	-	400,028
Total Assigned	647,837	-	-	647,837
Unassigned				
General fund	590,882	-	-	590,882
Stabilization	400,523	-	-	400,523
Special revenue fund	-	-	(4,576)	(4,576)
Capital project fund	-	(31,861)	(921,534)	(953,395)
Total Unassigned	991,405	(31,861)	(926,110)	33,434
Total Fund Balances	\$ 2,245,915	\$ (31,861)	\$ 11,110,481	\$ 13,324,535

16. Subsequent Events

Debt

Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonding	\$ 26,776,000	3.00%	01/07/15	01/15/35

17. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

18. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2012,

the actuarial valuation date, approximately 403 retirees and 831 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 10% - 40% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2012.

Annual Required Contribution (ARC)*	\$ 5,266,544
Interest on net OPEB obligation	-
Adjustment to ARC	<u>1,075,912</u>
Annual OPEB cost	6,342,456
Contributions made*	<u>(2,227,416)</u>
Increase in net OPEB obligation	4,115,040
Net OPEB obligation - beginning of year	<u>17,312,021</u>
Net OPEB obligation - end of year	<u><u>\$ 21,427,061</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 5,266,544	0%	\$ 21,427,061
2013	\$ 5,133,358	0%	\$ 17,312,021
2012	\$ 5,447,345 *	31%	\$ 13,329,573

*Amounts are estimated based on amounts reported in the July 1, 2010 actuarial valuation.

The Town's net OPEB obligation as of June 30, 2014 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 70,047,919
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 70,047,919</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 36,066,932</u>
UAAL as a percentage of covered payroll	<u>194.2%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the

types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 7%, which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming level dollar amortization over 30 years at transition.

19. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The Town contributes to the Norfolk Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Norfolk Retirement System at 614 High Street, Suite 201, Dedham, Massachusetts 02027-0310.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$2,779,100, \$2,665,364, and \$2,539,486, respectively, which were equal to its annual required contributions for each of these years.

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

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$6,438,717 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Self-Insurance

The Town self-insures against claims for workers compensation, unemployment, and most employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Workers Compensation

The Town contracts with an insurance consultant for claims processing of the Town's workers compensation policy, which has no excess liability coverage for any employees. The Workers Compensation claims liability represents an estimate of future costs based on a historical analysis of similar claims for all

employees excluding public safety. The Town is unable to make any reasonable estimate of its liability for public safety employees.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$100,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2014 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 662,771
Claims incurred/recognized in fiscal year 2014	9,683,798
Claims paid in fiscal year 2014	<u>(9,780,021)</u>
Claims liability, end of year	<u>\$ 566,548</u>

21. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

22. Beginning Fund Balance Reclassification

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

	Fund Equity 6/30/13 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
Major school building capital project fund	\$ (1,334,130)	\$ 1,334,130	\$ -
Nonmajor funds	6,497,735	(1,254,005)	5,243,730
Major chapter 90 fund	<u>-</u>	<u>(80,125)</u>	<u>(80,125)</u>
Total	\$ <u>5,163,605</u>	\$ <u>-</u>	\$ <u>5,163,605</u>

23. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Norfolk Retirement System's actuarially accrued liability.

**TOWN OF SHARON, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2014
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/12	\$ -	\$ 70,047,919	\$ 70,047,919	0.0%	\$ 36,066,932	194.2%
07/01/10	\$ -	\$ 51,261,193	\$ 51,261,193	0.0%	\$ 32,012,340	160.1%
07/01/08	\$ -	\$ 45,886,431	\$ 45,886,431	0.0%	\$ 31,016,752	147.9%

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/14	\$ 696,682,779	\$ 1,247,596,772	\$ 550,913,993	55.8%	\$ 246,722,941	223.3%
01/01/12	\$ 608,235,096	\$ 1,128,960,288	\$ 520,725,192	53.9%	\$ 229,095,409	227.3%
01/01/10	\$ 600,790,835	\$ 1,001,881,055	\$ 401,090,220	60.0%	\$ 223,332,595	179.6%
01/01/08	\$ 596,157,147	\$ 907,719,124	\$ 311,561,977	65.7%	\$ 223,814,977	139.2%

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

Plan Year End	System Wide			Town of Sharon	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 44,800,000	\$ 44,800,000	100%	\$ 2,779,100	6.2%
12/31/12	\$ 42,714,639	\$ 42,714,639	100%	\$ 2,665,364	6.2%
12/31/11	\$ 41,206,587	\$ 41,206,587	100%	\$ 2,539,486	6.2%
12/31/10	\$ 39,749,857	\$ 39,749,857	100%	\$ 2,354,551	5.9%

See Independent Auditors' Report.