

TOWN OF EASTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Easton, 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 Easton, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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 Easton, Massachusetts, as of June 30, 2013, 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 July 10, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

July 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Easton, we offer readers this narrative overview and analysis of the financial activities of the Town of Easton for the fiscal year ended June 30, 2013. Unless otherwise noted, the amounts reported in Management's Discussion and Analysis are reported in thousands.

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.

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 Provision presents information on all assets and liabilities, with the difference between the two reported as net provision. 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 provision changed during the most recent fiscal year. All changes in net provision is 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, public works, education, health and human services, culture and recreation, interest on debt, and intergovernmental assessments. The business-type activities include water and trash enterprise fund 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:

The Enterprise fund is 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 and trash operations.

The Proprietary fund provides the same type of information as the business-type activities reported in the government-wide financial statements.

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 assets for governmental activities exceeded liabilities by \$68,041 (i.e., net position), a change of \$(4,997) in comparison to the prior year.
- As of the close of the current fiscal year, total assets for business-type activities exceeded liabilities by \$33,684 (i.e., net position), a change of \$(361) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$15,302, a change of \$5,071 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,698, a change of \$(414) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$43,410, a change of \$6,261 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>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 29,094	\$ 26,112	\$ 3,156	\$ 2,883	\$ 32,250	\$ 28,995
Capital assets	<u>117,567</u>	<u>116,881</u>	<u>33,560</u>	<u>34,075</u>	<u>151,127</u>	<u>150,956</u>
Total assets	146,661	142,993	36,716	36,958	183,377	179,951
Long-term liabilities	73,210	62,415	2,990	2,291	76,200	64,706
Notes payable	1,489	4,705	-	600	1,489	5,305
Other liabilities	<u>3,921</u>	<u>2,835</u>	<u>42</u>	<u>22</u>	<u>3,963</u>	<u>2,857</u>
Total liabilities	78,620	69,955	3,032	2,913	81,652	72,868
Net position:						
Net investment in capital assets	75,274	77,330	32,165	32,406	107,439	109,736
Restricted	7,628	5,410	-	-	7,628	5,410
Unrestricted	<u>(14,861)</u>	<u>(9,702)</u>	<u>1,519</u>	<u>1,639</u>	<u>(13,342)</u>	<u>(8,063)</u>
Total net position	<u>\$ 68,041</u>	<u>\$ 73,038</u>	<u>\$ 33,684</u>	<u>\$ 34,045</u>	<u>\$ 101,725</u>	<u>\$ 107,083</u>

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 3,051	\$ 3,417	\$ 3,577	\$ 3,833	\$ 6,628	\$ 7,250
Operating grants and contributions	18,514	18,484	-	-	18,514	18,484
Capital grants and contributions	1,936	3,299	2	10	1,938	3,309
General revenues:						
Property taxes	47,331	45,476	-	-	47,331	45,476
Excises	3,035	2,831	-	-	3,035	2,831
Penalties and interest and other taxes	478	339	-	-	478	339
Grants and contributions not restricted to specific programs	2,248	2,108	-	-	2,248	2,108
Investment income	(7)	111	(1)	13	(8)	124
Other	3,279	3,445	-	-	3,279	3,445
Total revenues	<u>79,865</u>	<u>79,510</u>	<u>3,578</u>	<u>3,856</u>	<u>83,443</u>	<u>83,366</u>
Expenses:						
General government	14,819	14,470	-	-	14,819	14,470
Public safety	9,753	9,220	-	-	9,753	9,220
Education	51,969	51,018	-	-	51,969	51,018
Public works	5,141	9,331	-	-	5,141	9,331
Health and human services	850	795	-	-	850	795
Culture and recreation	797	776	-	-	797	776
Interest and costs	1,417	1,662	-	-	1,417	1,662
Intergovernmental	664	688	-	-	664	688
Water services	-	-	2,554	2,586	2,554	2,586
Trash services	-	-	837	947	837	947
Total expenses	<u>85,410</u>	<u>87,960</u>	<u>3,391</u>	<u>3,533</u>	<u>88,801</u>	<u>91,493</u>
Change in net position before transfers and loss	(5,545)	(8,450)	187	323	(5,358)	(8,127)
Transfers in (out)	<u>548</u>	<u>548</u>	<u>(548)</u>	<u>(548)</u>	<u>-</u>	<u>-</u>
Change in net position	(4,997)	(7,902)	(361)	(225)	(5,358)	(8,127)
Net position - beginning of year	<u>73,038</u>	<u>80,940</u>	<u>34,045</u>	<u>34,270</u>	<u>107,083</u>	<u>115,210</u>
Net position - end of year	<u>\$ 68,041</u>	<u>\$ 73,038</u>	<u>\$ 33,684</u>	<u>\$ 34,045</u>	<u>\$ 101,725</u>	<u>\$ 107,083</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 \$101,725, a change of \$(5,358) from the prior year.

The largest portion of net position \$107,439 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); 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 \$7,628 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$(13,342).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(4,997). Key elements of this change are as follows (in thousands):

Net OPEB obligation increase	\$ (5,152)
Other	<u>155</u>
Total	<u>\$ (4,997)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(361). The key element of this decrease was engineering expenditures for a comprehensive wastewater management plan.

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 \$15,302, a change of \$5,071 in comparison to the prior year. Key elements of this change are as follows:

General fund excess of expenditures over revenues	\$ (1,067)
Enterprise fund transfer (indirect costs)	548
Community Preservation fund excess of expenditures over revenues	(59)
Waste Water capital project fund excess of expenditures over revenues	(2,873)
Non-Major governmental funds excess of expenditures over revenues	(508)
Issuance of debt	8,955
Other	<u>75</u>
Total	\$ <u>5,071</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 \$3,698, while total fund balance was \$6,446. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 3,698	\$ 4,112	\$ (414)	5.2%
Total fund balance	6,446	6,513	(67)	9.0%

The total fund balance of the general fund changed by \$(67) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (1,540)
Use of stabilization fund, net	(88)
Revenues in excess of budget	1,005
Expenditures less than budget	395
Other	<u>161</u>
Total	\$ <u>(67)</u>

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

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
General stabilization	\$ 1,382	\$ 1,473	\$ (91)
Capital stabilization	<u>411</u>	<u>408</u>	<u>3</u>
Total	\$ <u>1,793</u>	\$ <u>1,881</u>	\$ <u>(88)</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,519, a change of \$(120) over 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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$513,623. Major reasons for these amendments include (in thousands):

- \$275 transfer out to Stabilization and Unemployment trust funds, funded by free cash.
- \$ 84 increase to police, fire, and Town master plans, funded by free cash.
- \$155 miscellaneous increases funded by taxation, sale of real estate and grants.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$151,127 (net of accumulated depreciation), a change of \$172 from the prior year. This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following (in thousands):

- Waste Water infrastructure improvements of approximately \$4,248.
- Highway infrastructure improvements of approximately \$266.
- Purchase of DPW, Police, and Special Education vehicles of approximately \$314.
- Purchase of a conservation easement of \$1,000,000.

Change in credit rating. During the fiscal year, the Moody's credit rating improved from A2 in the previous year to Aa3 in the current year.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$43,410, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and 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 Easton'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 the Town Accountant
Town of Easton, Massachusetts
136 Elm Street
North Easton, Massachusetts 02356

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 10,480,557	\$ 1,229,251	\$ 11,709,808
Investments	6,033,176	866,073	6,899,249
Receivables, net of allowance for uncollectibles:			
Property taxes	1,365,173	-	1,365,173
Excise	268,934	-	268,934
Charges for service	-	968,026	968,026
Betterments	370,507	-	370,507
Departmental and other	983,636	-	983,636
Intergovernmental	5,169,442	-	5,169,442
Inventories	-	92,664	92,664
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	486,859	-	486,859
Intergovernmental	3,935,916	-	3,935,916
Capital assets, not being depreciated	19,581,068	3,085,138	22,666,206
Capital assets, being depreciated net of accumulated depreciation	<u>97,985,859</u>	<u>30,474,695</u>	<u>128,460,554</u>
TOTAL ASSETS	146,661,127	36,715,847	183,376,974
LIABILITIES			
Current:			
Warrants payable	2,290,169	94	2,290,263
Accrued liabilities	1,203,649	41,647	1,245,296
Deposits held in custody	42,990	-	42,990
Retainage payable	160,704	-	160,704
Notes payable	1,488,574	-	1,488,574
Other current liabilities	223,537	-	223,537
Current portion of long-term liabilities:			
Bonds payable	3,849,392	435,700	4,285,092
Accrued employee benefits	35,075	5,533	40,608
Estimated landfill closure and postclosure liability	50,000	-	50,000
Noncurrent:			
Bonds payable	37,220,099	1,905,000	39,125,099
Accrued employee benefits	666,423	109,030	775,453
Estimated landfill closure and postclosure liability	900,000	-	900,000
Net OPEB obligation	<u>30,489,290</u>	<u>535,249</u>	<u>31,024,539</u>
TOTAL LIABILITIES	78,619,902	3,032,253	81,652,155
NET POSITION			
Net investment in capital assets	75,274,481	32,164,603	107,439,084
Restricted for:			
Grants and other statutory restrictions	7,556,439	-	7,556,439
Permanent funds:			
Nonexpendable	46,031	-	46,031
Expendable	25,483	-	25,483
Unrestricted	<u>(14,861,209)</u>	<u>1,518,991</u>	<u>(13,342,218)</u>
TOTAL NET POSITION	<u>\$ 68,041,225</u>	<u>\$ 33,683,594</u>	<u>\$ 101,724,819</u>

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

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 14,819,156	\$ 216,546	\$ 70,726	\$ -	\$ (14,531,884)	\$ -	\$ (14,531,884)
Public safety	9,752,904	1,902,851	109,413	-	(7,740,640)	-	(7,740,640)
Education	51,968,679	644,752	17,946,526	56,788	(33,320,613)	-	(33,320,613)
Public works	5,141,487	-	121,487	1,879,507	(3,140,493)	-	(3,140,493)
Health and human services	849,553	155,150	203,384	-	(491,019)	-	(491,019)
Culture and recreation	797,732	132,037	62,191	-	(603,504)	-	(603,504)
Interest	1,416,677	-	-	-	(1,416,677)	-	(1,416,677)
Intergovernmental	664,454	-	-	-	(664,454)	-	(664,454)
Total Governmental Activities	85,410,642	3,051,336	18,513,727	1,936,295	(61,909,284)	-	(61,909,284)
Business-Type Activity:							
Water services	2,554,578	2,864,393	-	2,144	-	311,959	311,959
Trash services	836,601	712,622	-	-	-	(123,979)	(123,979)
Total Business-Type Activities	3,391,179	3,577,015	-	2,144	-	187,980	187,980
Total Primary Government	\$ 88,801,821	\$ 6,628,351	\$ 18,513,727	\$ 1,938,439	(61,909,284)	187,980	(61,721,304)
General Revenues and Transfers:							
Property taxes					47,331,242	-	47,331,242
Excises					3,034,815	-	3,034,815
Penalties, interest and other taxes					478,496	-	478,496
Grants and contributions not restricted to specific programs					2,248,411	-	2,248,411
Investment income					(6,947)	(1,545)	(8,492)
Miscellaneous					3,278,884	-	3,278,884
Transfers, net					547,753	(547,753)	-
Total general revenues and transfers					56,912,654	(549,298)	56,363,356
Change in Net Position					(4,996,630)	(361,318)	(5,357,948)
Net Position:							
Beginning of year					73,037,855	34,044,912	107,082,767
End of year					\$ 68,041,225	\$ 33,683,594	\$ 101,724,819

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

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Waste Water Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 5,419,870	\$ 1,293,587	\$ -	\$ 3,767,102	\$ 10,480,559
Investments	2,641,206	3,177,599	-	214,371	6,033,176
Receivables:					
Property taxes	2,028,097	-	-	-	2,028,097
Excises	485,322	-	-	-	485,322
Betterments	-	-	-	370,507	370,507
Departmental	1,278,724	26,688	-	63,763	1,369,175
Intergovernmental	100,446	-	3,044,033	1,040,980	4,185,459
Due from other funds	1,174,501	-	-	-	1,174,501
TOTAL ASSETS	\$ 13,128,166	\$ 4,497,874	\$ 3,044,033	\$ 5,456,723	\$ 26,126,796
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
LIABILITIES					
Warrants payable	\$ 2,289,836	\$ -	\$ -	\$ 334	\$ 2,290,170
Accrued liabilities	733,237	-	-	-	733,237
Deposits held in custody	-	-	-	42,990	42,990
Retainage payable	-	-	160,702	-	160,702
Notes payable	-	500,000	35,000	953,574	1,488,574
Due to other funds	-	-	1,174,501	-	1,174,501
Other liabilities	223,537	-	-	-	223,537
TOTAL LIABILITIES	3,246,610	500,000	1,370,203	996,898	6,113,711
DEFERRED INFLOWS OF RESOURCES	3,435,748	26,688	-	1,248,647	4,711,083
FUND BALANCES					
Nonspendable	-	-	-	46,031	46,031
Restricted	-	3,971,186	1,673,830	3,611,552	9,256,568
Committed	1,090,791	-	-	-	1,090,791
Assigned	1,656,664	-	-	-	1,656,664
Unassigned	3,698,353	-	-	(446,405)	3,251,948
TOTAL FUND BALANCES	6,445,808	3,971,186	1,673,830	3,211,178	15,302,002
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 13,128,166	\$ 4,497,874	\$ 3,044,033	\$ 5,456,723	\$ 26,126,796

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

TOWN OF EASTON, MASSACHUSETTS

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

JUNE 30, 2013

Total governmental fund balances	\$ 15,302,002
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	117,566,927
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,933,091
<ul style="list-style-type: none">• MSBA reimbursements for contracted assistance and progress payment projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	4,919,896
<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.	(470,412)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable and net OPEB obligation, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(73,210,279)</u>
Net position of governmental activities	<u>\$ 68,041,225</u>

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

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Waste Water Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 45,272,191	\$ 968,951	\$ -	\$ 9,976	\$ 46,251,118
Excises	3,049,302	-	-	-	3,049,302
Departmental	1,058,160	-	-	1,200,450	2,258,610
Licenses and permits	895,677	-	-	-	895,677
Fines and forfeitures	414,854	4,088	-	-	418,942
Intergovernmental	19,192,945	299,064	1,500,000	2,690,405	23,682,414
Investment income	22,481	-	-	40,859	63,340
Other	773,630	18,750	-	2,475,772	3,268,152
Total Revenues	<u>70,679,240</u>	<u>1,290,853</u>	<u>1,500,000</u>	<u>6,417,462</u>	<u>79,887,555</u>
Expenditures:					
Current:					
General government	13,000,080	14,891	-	761,930	13,776,901
Public safety	7,913,342	-	-	747,134	8,660,476
Education	41,017,357	-	-	4,113,762	45,131,119
Public works	3,035,238	-	-	1,038,135	4,073,373
Human services	753,306	-	-	12,732	766,038
Culture and recreation	482,860	-	-	251,510	734,370
Debt service	4,676,086	172,524	-	-	4,848,610
Intergovernmental	664,454	-	-	-	664,454
Capital outlay	203,553	1,162,363	4,372,561	-	5,738,477
Total Expenditures	<u>71,746,276</u>	<u>1,349,778</u>	<u>4,372,561</u>	<u>6,925,203</u>	<u>84,393,818</u>
Excess (deficiency) of revenues over expenditures	(1,067,036)	(58,925)	(2,872,561)	(507,741)	(4,506,263)
Other Financing Sources (Uses):					
Issuance of debt	-	2,375,000	4,640,295	1,940,000	8,955,295
Proceeds of refunded bonds	2,524,300	-	-	-	2,524,300
Payment to escrow agent	(2,559,918)	-	-	-	(2,559,918)
Gain on refunding	110,081	-	-	-	110,081
Transfers in	1,002,390	-	-	329,397	1,331,787
Transfers out	(76,797)	(250,000)	-	(457,237)	(784,034)
Total Other Financing Sources (Uses)	<u>1,000,056</u>	<u>2,125,000</u>	<u>4,640,295</u>	<u>1,812,160</u>	<u>9,577,511</u>
Change in fund balance	(66,980)	2,066,075	1,767,734	1,304,419	5,071,248
Fund Balance, at Beginning of Year	<u>6,512,788</u>	<u>1,905,111</u>	<u>(93,904)</u>	<u>1,906,759</u>	<u>10,230,754</u>
Fund Balance, at End of Year	<u>\$ 6,445,808</u>	<u>\$ 3,971,186</u>	<u>\$ 1,673,830</u>	<u>\$ 3,211,178</u>	<u>\$ 15,302,002</u>

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

TOWN OF EASTON, MASSACHUSETTS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - Total governmental funds	\$ 5,071,248						
<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%;"> <tr> <td style="width: 70%;">Capital outlay, net</td> <td style="width: 30%; text-align: right;">6,199,500</td> </tr> <tr> <td>Depreciation, net</td> <td style="text-align: right;">(5,513,336)</td> </tr> </table> 		Capital outlay, net	6,199,500	Depreciation, net	(5,513,336)		
Capital outlay, net	6,199,500						
Depreciation, net	(5,513,336)						
<ul style="list-style-type: none"> • 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. 962,690 							
<ul style="list-style-type: none"> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. (983,980) 							
<ul style="list-style-type: none"> • 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%;"> <tr> <td style="width: 70%;">Issuance of debt, net of refunding</td> <td style="width: 30%; text-align: right;">(9,009,595)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">3,349,223</td> </tr> </table> 		Issuance of debt, net of refunding	(9,009,595)	Repayments of debt	3,349,223		
Issuance of debt, net of refunding	(9,009,595)						
Repayments of debt	3,349,223						
<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. 62,547 							
<ul style="list-style-type: none"> • 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. <table style="margin-left: 40px; width: 80%;"> <tr> <td style="width: 70%;">Increase in Net OPEB obligation</td> <td style="width: 30%; text-align: right;">(5,151,523)</td> </tr> <tr> <td>Decrease in compensated absence liability</td> <td style="text-align: right;">(33,404)</td> </tr> <tr> <td>Decrease in landfill liability</td> <td style="text-align: right;"><u>50,000</u></td> </tr> </table> 		Increase in Net OPEB obligation	(5,151,523)	Decrease in compensated absence liability	(33,404)	Decrease in landfill liability	<u>50,000</u>
Increase in Net OPEB obligation	(5,151,523)						
Decrease in compensated absence liability	(33,404)						
Decrease in landfill liability	<u>50,000</u>						
Change in net position of governmental activities	\$ <u>(4,996,630)</u>						

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

TOWN OF EASTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 45,164,411	\$ 45,237,282	\$ 45,237,282	\$ -
Motor vehicle excise	2,850,000	2,750,000	3,049,302	299,302
Licenses, permits and fees	1,415,000	1,475,000	1,953,837	478,837
Fines and forfeitures	280,000	285,000	414,854	129,854
Intergovernmental	12,543,504	12,543,446	12,524,315	(19,131)
Investment income	25,000	25,000	21,457	(3,543)
Other revenue	619,984	655,000	773,629	118,629
Transfers in	1,225,826	1,301,520	1,302,554	1,034
Use of free cash	1,120,000	1,485,100	1,485,100	-
Other sources	55,000	55,000	55,000	-
Total Revenues and Other Sources	65,298,725	65,812,348	66,817,330	1,004,982
Expenditures and Other Uses:				
General government	13,454,151	13,211,251	12,952,071	259,180
Public safety	7,683,113	7,782,213	7,706,041	76,172
Education	34,430,266	34,430,266	34,420,362	9,904
Public works	2,355,784	2,355,794	2,350,998	4,796
Snow and ice removal	188,700	388,700	588,602	(199,902)
Health and human services	750,839	766,839	760,059	6,780
Culture and recreation	483,011	483,011	483,011	-
Capital outlay	272,530	519,014	515,450	3,564
Debt service	4,986,199	4,923,299	4,701,258	222,041
Intergovernmental	694,132	676,961	664,454	12,507
Transfers out	-	275,000	275,502	(502)
Total Expenditures and Other Uses	65,298,725	65,812,348	65,417,808	394,540
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,399,522	\$ 1,399,522

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities Enterprise Fund		
	Water Fund	Nonmajor Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 1,068,409	\$ 160,842	\$ 1,229,251
Investments	866,073	-	866,073
Receivables:			
Charges for service, net of allowance for uncollectibles	918,393	49,633	968,026
Inventory	92,664	-	92,664
Total current assets	2,945,539	210,475	3,156,014
Noncurrent:			
Capital assets, not being depreciated	3,085,138	-	3,085,138
Capital assets being depreciated, net of accumulated depreciation	30,474,695	-	30,474,695
Total noncurrent assets	33,559,833	-	33,559,833
TOTAL ASSETS	36,505,372	210,475	36,715,847
LIABILITIES			
Current:			
Warrants payable	94	-	94
Accrued liabilities	41,647	-	41,647
Current portion of long-term liabilities:			
Bonds payable	405,700	30,000	435,700
Accrued employee benefits	5,533	-	5,533
Total current liabilities	452,974	30,000	482,974
Noncurrent:			
Bonds payable	1,850,000	55,000	1,905,000
Accrued employee benefits	109,030	-	109,030
Net OPEB obligation	535,249	-	535,249
Total noncurrent liabilities	2,494,279	55,000	2,549,279
TOTAL LIABILITIES	2,947,253	85,000	3,032,253
NET POSITION			
Net investment in capital assets	32,164,603	-	32,164,603
Unrestricted	1,393,516	125,475	1,518,991
TOTAL NET POSITION	\$ 33,558,119	\$ 125,475	\$ 33,683,594

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Fund		
	Water Fund	Nonmajor Fund	Total
Operating Revenues:			
Charges for services	\$ 2,793,227	\$ 693,842	\$ 3,487,069
Other	<u>71,166</u>	<u>18,780</u>	<u>89,946</u>
Total Operating Revenues	2,864,393	712,622	3,577,015
Operating Expenses:			
Personnel services	1,020,610	15,000	1,035,610
Purchase of services	528,472	818,663	1,347,135
Depreciation	<u>909,715</u>	<u>-</u>	<u>909,715</u>
Total Operating Expenses	<u>2,458,797</u>	<u>833,663</u>	<u>3,292,460</u>
Operating Income	405,596	(121,041)	284,555
Nonoperating Revenues (Expenses):			
Investment income	(1,545)	-	(1,545)
Interest expense	<u>(95,781)</u>	<u>(2,938)</u>	<u>(98,719)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(97,326)</u>	<u>(2,938)</u>	<u>(100,264)</u>
Income (Loss) Before Contributions and Transfers	308,270	(123,979)	184,291
Transfers out	(547,753)	-	(547,753)
Capital contributions	<u>2,144</u>	<u>-</u>	<u>2,144</u>
Change in Net Position	(237,339)	(123,979)	(361,318)
Net Position at Beginning of Year	<u>33,795,458</u>	<u>249,454</u>	<u>34,044,912</u>
Net Position at End of Year	<u>\$ 33,558,119</u>	<u>\$ 125,475</u>	<u>\$ 33,683,594</u>

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

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Water Fund	Nonmajor Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 2,933,279	\$ 932,781	\$ 3,866,060
Payments to vendors and employees	<u>(1,486,083)</u>	<u>(833,663)</u>	<u>(2,319,746)</u>
Net Cash Provided By (Used For) Operating Activities	1,447,196	99,118	1,546,314
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers out	<u>(547,753)</u>	<u>-</u>	<u>(547,753)</u>
Net Cash (Used For) Noncapital Financing Activities	(547,753)	-	(547,753)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(394,130)	-	(394,130)
Proceeds from issuance of bonds and notes	1,085,700	-	1,085,700
Principal payments on bonds and notes	(1,055,000)	(30,000)	(1,085,000)
Capital contributions	2,144	-	2,144
Interest expense	<u>(76,000)</u>	<u>(2,938)</u>	<u>(78,938)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(437,286)	(32,938)	(470,224)
<u>Cash Flows From Investing Activities:</u>			
Change in investments	(13,307)	-	(13,307)
Investment income	<u>(1,545)</u>	<u>-</u>	<u>(1,545)</u>
Net Cash Provided By Investing Activities	(14,852)	-	(14,852)
Net Change in Cash and Short-Term Investments	447,305	66,180	513,485
Cash and Short-Term Investments, Beginning of Year	<u>621,104</u>	<u>94,662</u>	<u>715,766</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,068,409</u>	<u>\$ 160,842</u>	<u>\$ 1,229,251</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ 405,596	\$ (121,041)	\$ 284,555
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	909,715	-	909,715
Changes in assets and liabilities:			
Receivables	68,885	220,159	289,044
Inventory	(35,400)	-	(35,400)
Accrued liabilities	5,083	-	5,083
Other post employment benefits	<u>93,317</u>	<u>-</u>	<u>93,317</u>
Net Cash Provided By Operating Activities	<u>\$ 1,447,196</u>	<u>\$ 99,118</u>	<u>\$ 1,546,314</u>

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

TOWN OF EASTON, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2013

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ -	\$ 445,819	\$ 857,810
Investments	<u>49,774</u>	<u>183,653</u>	<u>-</u>
Total Assets	49,774	629,472	857,810
 <u>LIABILITIES AND NET POSITION</u>			
Other liabilities	<u>-</u>	<u>-</u>	<u>857,810</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>857,810</u>
 <u>NET POSITION</u>			
Total net position held in trust	<u>\$ 49,774</u>	<u>\$ 629,472</u>	<u>\$ -</u>

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

TOWN OF EASTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Investment income	\$ (226)	\$ 25,068
Contributions	<u>50,000</u>	<u>459,154</u>
Total additions	49,774	484,222
Deductions:		
Other	<u>-</u>	<u>37,904</u>
Total deductions	<u>-</u>	<u>37,904</u>
Net increase	49,774	446,318
Net position:		
Beginning of year	<u>-</u>	<u>183,154</u>
End of year	<u>\$ 49,774</u>	<u>\$ 629,472</u>

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

TOWN OF EASTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Easton (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 government 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.

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 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*.

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 government 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 government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* - This fund accounts for activity associated with the Commonwealth's Community Preservation Act.

- The *Waste Water Capital Project fund* - This fund accounts for activity associated with the construction of the new waste water treatment facility.

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 government reports the following major proprietary funds:

- Water Enterprise Fund

The OPEB trust fund accounts for the activities of the Town's other post-employment benefits trust, which accumulates resources for other post-employment benefits provided to eligible retirees.

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

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others.

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.

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 2013 tax levy reflected an excess capacity of \$14,873.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. 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 government as assets with an initial individual cost of more than \$15,000 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.

Property, plant and equipment 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	50
Vehicles	3 - 5
Office equipment	3 - 10
Computer equipment	3 - 5
Furnishings	5

I. Compensated Absences

It is the government'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; otherwise, the liability is appropriately reported in the government-wide statements.

J. 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.

K. Fund Equity

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

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Board of Selectmen).
- 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 consist 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.

L. 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 Town Administrator 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 budgetary data for the general 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)	\$ 70,679,240	\$ 71,746,276
Other financing sources/uses (GAAP basis)	<u>3,636,771</u>	<u>2,636,715</u>
Subtotal (GAAP Basis)	74,316,011	74,382,991
To adjust property tax revenues to the budgetary basis	72,975	-
To reverse expenditures of prior year appropriation carryforwards	-	(295,169)
To book current year appropriation carryforwards	-	384,656
To record use of free cash and other sources	1,540,100	-
To reverse GASB 24 MTRS	(6,668,630)	(6,668,630)
Other timing issues	(96,794)	(26,123)
Nonbudgeted items	<u>(2,346,332)</u>	<u>(2,359,917)</u>
Budgetary Basis	<u>\$ 66,817,330</u>	<u>\$ 65,417,808</u>

C. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

Mass Works N Main Street Grant	\$ (44,262)
Chapter 90 Highway	(45,673)
School lunch revolving	(1,819)
Police Detail	(39,443)
Capital budget	(249,155)
EMS Roof Repairs	<u>(66,053)</u>
	<u>\$ (446,405)</u>

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

3. Cash and Short-Term Investments

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 to it. 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, 2013, \$2,982,691 of the Town’s bank balance of \$14,961,796 was exposed to custodial credit risk as uninsured or uncollateralized. \$731,954 of the Town’s uninsured and uncollateralized amount is on deposit with the Massachusetts Municipal Depository Trust.

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>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>			
			<u>Aaa</u>	<u>A-</u>	<u>AA+</u>	<u>BBB+</u>
Certificates of deposits	\$ 3,212	\$ 3,212	\$ -	\$ -	\$ -	\$ -
Corporate bonds	1,038	-	-	129	483	426
Corporate equities	77	77	-	-	-	-
Mutual funds	1,452	1,452	-	-	-	-
U.S. Treasury bonds	696	-	696	-	-	-
Federal agency securities	658	-	658	-	-	-
Total investments	\$ 7,133	\$ 4,741	\$ 1,354	\$ 129	\$ 483	\$ 426

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.

The Town’s investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the town’s brokerage firm, which is also the Counterparty to these

securities. The Town manages this risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

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

<u>Investment Issuer</u>	<u>Amount</u>
Federal National Mortgage Association	\$ 472,547
General Electric Corporation MTN	483,030
Hewlett Packard Co. Global	<u>366,608</u>
Total	\$ <u>1,322,185</u>

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>< 1</u>	<u>1-5</u>
Debt-related Securities:			
Certificates of deposits	\$ 3,212	\$ 886	\$ 2,326
Corporate bonds	1,038	112	926
U.S. Treasury bonds	696	-	696
Federal agency securities	<u>658</u>	<u>-</u>	<u>658</u>
Total	\$ <u>5,604</u>	\$ <u>998</u>	\$ <u>4,606</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 1st 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, 2013 consist of the following (in thousands):

Real Estate		
2013	\$ 508	
2012	1	
Prior	<u>2</u>	
		511
Personal Property		
2013	16	
2012	7	
2011	6	
Prior	<u>21</u>	
		50
Tax Liens		1,449
Deferred Taxes		<u>18</u>
Total		<u>\$ 2,028</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	\$ 176	\$ -
Excises	216	-
Departmental	386	-
Utilities	-	150

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year grant funds. Future receipt of MSBA contract assistance payments are as follows:

2014	\$	983,980
2015		983,980
2016		983,980
2017		983,980
2018		983,976
Total	\$	<u>4,919,896</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 118,211	\$ 176	\$ -	\$ 118,387
Machinery, equipment, and furnishings	7,815	314	-	8,129
Infrastructure	36,067	310	-	36,377
Total capital assets, being depreciated	162,093	800	-	162,893
Less accumulated depreciation for:				
Buildings and improvements	(32,584)	(3,832)	-	(36,416)
Machinery, equipment, and furnishings	(5,846)	(491)	-	(6,337)
Infrastructure	(20,964)	(1,190)	-	(22,154)
Total accumulated depreciation	(59,394)	(5,513)	-	(64,907)
Total capital assets, being depreciated, net	102,699	(4,713)	-	97,986
Capital assets, not being depreciated:				
Land	10,686	-	-	10,686
Intangible assets	3,000	1,000	-	4,000
Construction in progress	495	4,406	(6)	4,895
Total capital assets, not being depreciated	14,181	5,406	(6)	19,581
Governmental activities capital assets, net	\$ <u>116,880</u>	\$ <u>693</u>	\$ <u>(6)</u>	\$ <u>117,567</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 390	\$ -	\$ -	\$ 390
Machinery, equipment, and furnishings	1,902	105		2,007
Infrastructure	<u>43,266</u>	<u>289</u>	<u>-</u>	<u>43,555</u>
Total capital assets, being depreciated	45,558	394	-	45,952
Less accumulated depreciation for:				
Buildings and improvements	(277)	(10)	-	(287)
Machinery, equipment, and furnishings	(985)	(148)		(1,133)
Infrastructure	<u>(13,306)</u>	<u>(751)</u>	<u>-</u>	<u>(14,057)</u>
Total accumulated depreciation	<u>(14,568)</u>	<u>(909)</u>	<u>-</u>	<u>(15,477)</u>
Total capital assets, being depreciated, net	30,990	(515)	-	30,475
Capital assets, not being depreciated:				
Land	3,085	-	-	3,085
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,085</u>	<u>-</u>	<u>-</u>	<u>3,085</u>
Business-type activities capital assets, net	<u>\$ 34,075</u>	<u>\$ (515)</u>	<u>\$ -</u>	<u>\$ 33,560</u>

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

Governmental Activities:	
General government	\$ 31
Public safety	450
Education	3,643
Public works	1,340
Culture and recreation	26
Health and human services	<u>23</u>
Total depreciation expense - governmental activities	<u>\$ 5,513</u>
Business-Type Activities:	
Water	<u>\$ 909</u>
Total depreciation expense - business-type activities	<u>\$ 909</u>

9. Warrants Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013.

10. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2013.

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/13
Wastewater treatment	0.65%	06/07/13	08/23/13	\$ 35,000
EMS roof project	0.65%	08/23/12	08/23/13	100,000
Street reconstruction and equipment	0.65%	08/23/12	08/23/13	480,000
Gov. ames estate	0.50%	09/27/12	08/23/13	500,000
MWPAT - Septic	0.00%	05/01/13	upon completion	<u>373,574</u>
Total				<u>\$ 1,488,574</u>

The following summarizes activity in notes payable during fiscal year 2013.

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
OAHS/EJHS project	\$ 275,000	\$ -	\$ (275,000)	\$ -
Various projects	1,745,000	-	(1,745,000)	-
MWPAT - Septic	200,000	-	(200,000)	-
Chestnut Street Land	2,375,000	-	(2,375,000)	-
Water planning	110,100	-	(110,100)	-
Water main projects	600,000	-	(600,000)	-
Wastewater treatment	-	35,000	-	35,000
EMS roof project	-	100,000	-	100,000
Street reconstruction and equipment	-	480,000	-	480,000
Gov. ames estate	-	500,000	-	500,000
MWPAT - Septic	-	<u>373,574</u>	-	<u>373,574</u>
Total	<u>\$ 5,305,100</u>	<u>\$ 1,488,574</u>	<u>\$ (5,305,100)</u>	<u>\$ 1,488,574</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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/13</u>
Landfill closure - refunded	2017	2.00	\$ 330,000
MWPAT sewer loan	2020	-	53,273
Landfill closure - refunded	2023	2.00 - 3.00	1,245,000
School Planning - refunded	2023	2.00 - 3.00	949,300
MWPAT wastewater study	2023	3.00 - 5.00	24,623
Library refunded	2019	4.00 - 5.00	220,460
Landfill closure - refunded	2020	4.00 - 5.00	668,000
Foundry street - refunded	2020	4.00 - 5.00	106,300
Concom Ind - Lewis Farms refunded	2020	4.00 - 5.00	35,240
School construction	2026	4.00 - 5.00	15,390,000
School construction - refunded	2018	4.00 - 5.00	6,415,000
Dean street land purchase	2026	4.00 - 5.00	1,090,000
Library addition	2020	2.00 - 5.00	270,000
Capital budget - DPW roof	2020	2.00 - 5.00	75,000
Capital budget - Ambulance	2014	2.00 - 2.75	50,000
School electrical updates	2020	2.00 - 5.00	140,000
Capital budget - stadium	2024	2.00 - 5.00	1,000,000
School construction	2027	2.00 - 5.00	3,290,000
School phone system	2016	2.00 - 3.00	17,000
NE Village Wastewater system	2016	2.00 - 3.00	210,000
Long pond dam repairs	2016	2.00 - 3.00	45,000
Public safety radios	2016	2.00 - 3.00	35,000
Inspectional services vehicles	2016	2.00 - 3.00	6,000
DPW equipment/vehicles	2016	2.00 - 3.00	147,000
MWPAT			302,000
Street Reconstruction	2027	2.00 - 3.00	840,000
Fire Station Roof	2033	2.00 - 3.00	175,000
Ground Water Planning	2017	2.00 - 3.00	110,000
MWPAT			4,640,295
MWPAT - Septic Loan Program			200,000
Chestnut Street Land Acquisiton	2033	2.00 - 3.00	2,375,000
School construction	2018	2.00 - 3.00	225,000
Capitla budget - Equipment	2022	2.00 - 3.00	390,000
			<u>\$ 41,069,491</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/13</u>
Land - Freitas	2017	3.75 - 4.50	\$ 80,700
Town well	2016	4.00 - 5.00	240,000
Water meters	2015	4.00 - 5.00	120,000
Water tank painting	2016	4.00 - 5.00	105,000
Bay Road land acquisition	2026	4.00 - 5.00	385,000
Water main construction	2016	2.00 - 3.00	240,000
Water main construction	2018	2.00 - 3.00	100,000
Water main construction	2033	2.00 - 3.00	985,000
Recycling carts	2016	2.00 - 3.00	85,000
			<u>\$ 2,340,700</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,849,392	\$ 1,468,287	\$ 5,317,679
2015	3,829,437	1,318,234	5,147,671
2016	3,848,738	1,173,060	5,021,798
2017	3,743,274	1,016,403	4,759,677
2018	3,697,908	864,043	4,561,951
2019 - 2023	11,929,952	2,818,457	14,748,409
2024 - 2028	7,944,440	778,423	8,722,863
2029 - 2033	<u>2,226,350</u>	<u>144,128</u>	<u>2,370,478</u>
Total	<u>\$ 41,069,491</u>	<u>\$ 9,581,035</u>	<u>\$ 50,650,526</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 435,700	\$ 68,490	\$ 504,190
2015	435,000	52,656	487,656
2016	370,000	39,594	409,594
2017	150,000	30,719	180,719
2018	130,000	26,519	156,519
2019 - 2023	350,000	94,300	444,300
2024 - 2028	285,000	41,084	326,084
2029 - 2033	<u>185,000</u>	<u>12,106</u>	<u>197,106</u>
Total	<u>\$ 2,340,700</u>	<u>\$ 365,468</u>	<u>\$ 2,706,168</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/12</u>	<u>Additions</u>	<u>Reductions</u>	Refunding of Debt, <u>Net</u>	Total Balance <u>6/30/13</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/13</u>
<u>Governmental Activities</u>							
General obligation debt	\$ 35,410	\$ 8,955	\$ (3,350)	\$ 54	\$ 41,069	\$ (3,849)	\$ 37,220
Accrued employee benefits	668	33	-	-	701	(35)	666
Landfill closure	1,000	-	(50)	-	950	(50)	900
Net OPEB obligation	<u>25,338</u>	<u>7,508</u>	<u>(2,356)</u>	<u>-</u>	<u>30,490</u>	<u>-</u>	<u>30,490</u>
Totals	<u>\$ 62,416</u>	<u>\$ 16,496</u>	<u>\$ (5,756)</u>	<u>\$ 54</u>	<u>\$ 73,210</u>	<u>\$ (3,934)</u>	<u>\$ 69,276</u>

	Total Balance <u>7/1/12</u>	<u>Additions</u>	<u>Reductions</u>	Refunding of Debt, <u>Net</u>	Total Balance <u>6/30/13</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/13</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 1,740	\$ 1,085	\$ (485)	\$ 1	\$ 2,341	\$ (436)	\$ 1,905
Accrued employee benefits	109	5	-	-	114	(5)	109
Net OPEB obligation	<u>442</u>	<u>114</u>	<u>(21)</u>	<u>-</u>	<u>535</u>	<u>-</u>	<u>535</u>
Totals	<u>\$ 2,291</u>	<u>\$ 1,204</u>	<u>\$ (506)</u>	<u>\$ 1</u>	<u>\$ 2,990</u>	<u>\$ (441)</u>	<u>\$ 2,549</u>

D. Debt Refunding

On August 23, 2012, the Town issued taxable general obligation refunding bonds (Series A) in the amount of \$1,575,000 at a True Interest Rate of 2.406% to current refund \$320,000 of its June 15, 2002 Bonds (the "2002 Bonds"), comprised of serial bonds with interest rates ranging from 4.125% to 4.50%; and to advance refund \$1,200,000 of its May 1, 2003 Bonds (the "2003 Bonds"), comprised of serial bonds with interest rates ranging from 3.50% to 4.20%. The 2002 Bonds mature on June 15, 2014 through June 15, 2017 and were called on October 3, 2012. The 2003 Bonds mature on May 1, 2014 through May 1, 2023 and were called on May 1, 2013.

The Series A taxable refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the Town's financial statements.

As a result of the Series A taxable 2002 current refunding, the Town reduced its total debt service cash flow requirements by \$24,684, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$18,338. As a result of the Series A taxable 2003 advance refunding, the Town reduced its total

debt service cash flow requirements by \$102,307, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$73,512.

Also on August 23, 2012, the Town issued tax-exempt general obligation refunding bonds (Series B) in the amount of \$1,030,000 at a True Interest Rate of 1.487% to current refund \$80,000 of the 2002 Bonds, comprised of serial bonds with interest rates ranging from 4.125% to 4.50%; and to advance refund \$950,000 of the 2003 Bonds, comprised of serial bonds with interest rates ranging from 3.50% to 4.20%. The 2002 Bonds mature on June 15, 2014 through June 15, 2017 and were called on October 3, 2012. The 2003 Bonds mature on May 1, 2014 through May 1, 2023 and were called on May 1, 2013.

The Series B tax-exempt refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the Town's financial statements.

As a result of the Series B 2002 tax-exempt current refunding, the Town reduced its total debt service cash flow requirements by \$7,130, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$5,842. As a result of the Series B 2003 tax-exempt advance refunding, the Town reduced its total debt service cash flow requirements by \$112,684, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$93,162.

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. In 2002, the Town authorized borrowing \$2,400,000 to fund the expected costs of re-capping and monitoring of the landfill.

The \$950,000 reported as landfill closure and postclosure care liability at June 30, 2013 represents what it would cost to perform all closure and post-closure care remaining on the closed landfill site in 2013. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Deferred Inflows of Resources

The Town implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report *Deferred Inflows of Resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2013, the balance consisted of the following:

	Fund Basis		

	General	Governmental Community Preservation	Nonmajor Funds
	<u>Fund</u>	<u>Fund</u>	
Unavailable Revenues	\$ 3,435,748	\$ 26,688	\$ 1,248,647

14. **Governmental Funds - Balances**

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

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2013:

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, capital stabilization funds set aside by Town

Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

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

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

Following is a breakdown of the Town's fund balances at June 30, 2013:

	General Fund	Community Preservation Funds	Waste Water Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 46,031	\$ 46,031
Total Nonspendable	-	-	-	46,031	46,031
Restricted					
Bonded projects	-	-	1,673,830	827	1,674,657
Special revenue funds					
KFD Extended Day	-	-	-	222,607	222,607
Custodial Revolving	-	-	-	135,796	135,796
SPED Revolving	-	-	-	198,498	198,498
Athletic Revolving	-	-	-	118,347	118,347
Oliver Ames Trust - Highway	-	-	-	412,289	412,289
Oliver Ames Trust - School	-	-	-	388,600	388,600
SPED Circuit Breaker	-	-	-	470,998	470,998
Other Special Revenues	-	-	-	589,471	589,471
Expendable permanent funds					
Affordable Housing Trust	-	-	-	162,460	162,460
Affordable Housing Trust - CPA	-	-	-	622,559	622,559
Other Expendable Trusts	-	-	-	289,100	289,100
Community preservation funds	-	3,971,186	-	-	3,971,186
Total Restricted	-	3,971,186	1,673,830	3,611,552	9,256,568
Committed					
Nonlapsing capital appropriations	679,629	-	-	-	679,629
Capital stabilization funds	411,162	-	-	-	411,162
Total Committed	1,090,791	-	-	-	1,090,791

(continued)

(continued)

	<u>General Fund</u>	<u>Community Preservation Funds</u>	<u>Waste Water Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assigned					
Encumbrances	203,995	-	-	-	203,995
Reserved for expenditures	1,452,669	-	-	-	1,452,669
Total Assigned	<u>1,656,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,656,664</u>
Unassigned					
General Fund	2,316,452	-	-	-	2,316,452
General Stabilization	1,381,901	-	-	-	1,381,901
Deficits	-	-	-	(446,405)	(446,405)
Total Unassigned	<u>3,698,353</u>	<u>-</u>	<u>-</u>	<u>(446,405)</u>	<u>3,251,948</u>
Total Fund Balance	<u>\$ 6,445,808</u>	<u>\$ 3,971,186</u>	<u>\$ 1,673,830</u>	<u>\$ 3,211,178</u>	<u>\$ 15,302,002</u>

15. Interfund Fund Transfers

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund transfers must be utilized.

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2013:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,002,390	\$ 76,797
Community Preservation Fund	-	250,000
Nonmajor Funds:		
Special Revenues Funds:		
Receipts Reserved	-	96,809
Other SRF	502	353,594
Capital Project Funds:		
Other Capital Projects	53,895	-
Trust Funds:		
Expendable	<u>275,000</u>	<u>6,834</u>
Subtotal Nonmajor Funds	329,397	457,237

(continued)

(continued)

<u>Business-Type Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Water Fund	-	547,753
Subtotal Business-Typen Funds	-	547,753
Grand Total	\$ 1,331,787	\$ 1,331,787

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

16. 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.

17. Subsequent Events

Debt

Subsequent to June 30, 2013, the Town has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation bonds	\$ 1,045,000	3.00 - 3.50 %	8/9/13	8/9/23
Bond anticipation notes	2,700,000	1.00%	8/23/13	8/22/14
Bond anticipation notes	1,250,000	1.00%	4/4/14	8/22/14

18. Commitments and Contingencies

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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.

19. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 482 retirees and 588 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 25% - 50% 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 2013 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, 2013, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

Annual Required Contribution (ARC)	\$ 7,641,998
Interest on net OPEB obligation	1,095,637
Adjustment to ARC	<u>(1,115,566)</u>
Annual OPEB cost	7,622,069
Contributions made	<u>(2,377,229)</u>
Increase in net OPEB obligation	5,244,840
Net OPEB obligation - beginning of year	<u>25,779,699</u>
Net OPEB obligation - end of year	<u>\$ 31,024,539</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>
2013	\$ 7,622,069	31%	\$ 31,024,539
2012	\$ 9,732,407	33%	\$ 25,779,699
2011	\$ 9,128,571	32%	\$ 19,271,329
2010	\$ 9,314,475	28%	\$ 13,059,016
2009	\$ 8,699,042	27%	\$ 6,349,210

The Town's net OPEB obligation as of June 30, 2013 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 97,440,960
Actuarial value of plan assets	<u>(50,000)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 97,390,960</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.05%</u>
Covered payroll (active plan members)	<u>36,928,043</u>
UAAL as a percentage of covered payroll	<u>263.73%</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 Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was determined to be \$50,000. The actuarial assumptions included a 4.25% investment rate of return and an initial annual healthcare cost trend rate of 7% which decreases to a 4.5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 26 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.25%.

20. 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 Bristol 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 Bristol County Retirement System at 645 County Street, County Crossing, Taunton, Massachusetts 02780.

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, 2013, 2012, and 2011 were \$2,811,958, \$2,709,982, and \$2,628,249, respectively, which were equal to its annual required contributions for each of these years. The payroll for employees covered by the System for the year ended June 30, 2013 was not available.

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.

D. Teachers

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.

The Town's current year covered payroll for teachers and administrators was not available.

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$6,668,630 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Risk Management

The government 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 government 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

With the implementation of GASB Statement 54, the Town's Stabilization funds are now reported in the general fund. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/12 (as previously reported)	Reclassification	Fund Equity 6/30/12 (as restated)
General Fund	\$ 6,512,788	\$ -	\$ 6,512,788
Community Preservation Fund	1,905,111	-	1,905,111
School Building Fund	(275,000)	275,000	-
Waste Water Capital Project Fund	-	(93,904)	(93,904)
Nonmajor funds	<u>2,087,855</u>	<u>(181,096)</u>	<u>1,906,759</u>
Total	<u>\$ 10,230,754</u>	<u>\$ -</u>	<u>\$ 10,230,754</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 Town of Easton's actuarially accrued liability with the Bristol County Retirement System.

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

June 30, 2013

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/13	\$ 50	\$ 97,441	\$ 97,391	0.05%	\$ 36,928	263.73%
01/01/11	\$ -	\$ 104,908	\$ 104,908	0.00%	\$ 37,667	278.51%
01/01/09	\$ -	\$ 96,116	\$ 96,116	0.00%	\$ 33,521	286.73%

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

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

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$460,573	\$776,734	\$316,161	59.3%	\$137,231	230.4%
01/01/09	\$396,683	\$697,604	\$300,921	56.9%	\$158,881	189.4%

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

Plan Year-end	System Wide			Town of Easton	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual
12/31/12	\$ 30,299	\$ 29,456	97%	\$ 2,812	9.5%
12/31/11	\$ 27,585	\$ 29,333	106%	\$ 2,710	9.2%
12/31/10	\$ 30,852	\$ 28,100	91%	\$ 2,628	9.4%

See Independent Auditors' Report.