

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

To the Board of Selectmen
Town of Southamton, Massachusetts

We have audited the accompanying financial statements of each major fund, and the aggregate remaining fund information of the Town of Southamton, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise a portion of 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. 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.

Basis for Adverse Opinion on Governmental and Business-Type Activities and Major Proprietary Funds

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for Town's governmental activities and business-type activities have not been determined.

Also as discussed in Note 2 to the financial statements, management maintains the water and transfer station funds on a modified accrual basis, although under generally accepted accounting principles, both funds should be reported on the accrual basis of accounting. The amount by which this departure would affect the assets, liabilities, net assets and expenses of the business-type activities is not reasonably determinable.

Adverse Opinion on Governmental and Business-Type Activities and Major Proprietary Funds

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the governmental and business-type activities, and major proprietary funds of the Town of Southamptn, Massachusetts as of June 30, 2014, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

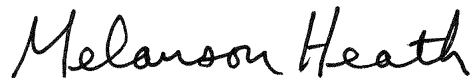
Unmodified Opinion on Major Governmental Funds and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information for the Town of Southamptn, Massachusetts as of June 30, 2014, and the respective changes in financial position 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 Schedule of Funding Progress 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. The Town has not presented the management's discussion and analysis.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

May 12, 2015

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>School Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and short-term investments	\$ 1,558,027	\$ 767,796	\$ 526,596	\$ 583,501	\$ 160,360	\$ 120,834	\$ 3,717,114
Investments	-	422,860	-	-	-	438,141	861,001
Receivables:							
Property taxes	112,286	2,400	-	-	-	-	114,686
Tax liens and foreclosures	217,791	-	-	-	-	-	217,791
Excises	83,527	-	-	-	-	-	83,527
User fees	-	-	39,260	-	-	-	39,260
Intergovernmental	-	-	-	-	47,739	-	47,739
Loans	-	-	35,919	-	-	-	35,919
Due from other funds	<u>7,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,097</u>
TOTAL ASSETS	\$ <u>1,978,728</u>	\$ <u>1,193,056</u>	\$ <u>601,775</u>	\$ <u>583,501</u>	\$ <u>208,099</u>	\$ <u>558,975</u>	\$ <u>5,124,134</u>
LIABILITIES							
Warrants payable	\$ 253,839	\$ 2,467	\$ 4,075	\$ 2,876	\$ 82,742	\$ 680	\$ 346,679
Accrued payroll	510,735	-	-	31,719	-	-	542,454
Notes payable	<u>-</u>	<u>-</u>	<u>110,600</u>	<u>-</u>	<u>623,358</u>	<u>-</u>	<u>733,958</u>
TOTAL LIABILITIES	764,574	2,467	114,675	34,595	706,100	680	1,623,091
DEFERRED INFLOWS OF RESOURCES	337,849	2,400	75,179	-	-	-	415,428
FUND BALANCES							
Nonspendable	-	-	-	-	-	361,765	361,765
Restricted	-	-	522,521	548,906	-	196,530	1,267,957
Committed	-	1,188,189	-	-	29,305	-	1,217,494
Assigned	3,104	-	-	-	-	-	3,104
Unassigned	<u>873,201</u>	<u>-</u>	<u>(110,600)</u>	<u>-</u>	<u>(527,306)</u>	<u>-</u>	<u>235,295</u>
TOTAL FUND BALANCES	<u>876,305</u>	<u>1,188,189</u>	<u>411,921</u>	<u>548,906</u>	<u>(498,001)</u>	<u>558,295</u>	<u>3,085,615</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>1,978,728</u>	\$ <u>1,193,056</u>	\$ <u>601,775</u>	\$ <u>583,501</u>	\$ <u>208,099</u>	\$ <u>558,975</u>	\$ <u>5,124,134</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Community Preservation Fund	Other Special Revenue Funds	School Special Revenue Funds	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Property taxes	\$ 9,784,186	\$ 176,454	\$ -	\$ -	\$ -	\$ -	\$ 9,960,640
Excises	832,974	-	-	-	-	-	832,974
Penalties, interest and other taxes	162,169	6,659	-	-	-	-	168,828
Charges for services	72,077	-	159,786	131,790	-	152,037	515,690
Intergovernmental	3,849,884	176,238	91,002	718,464	624,381	273,249	5,733,218
Licenses and permits	202,986	-	-	-	-	-	202,986
Fines and forfeitures	18,145	-	-	-	-	-	18,145
Investment income	6,373	-	-	-	-	6,533	12,906
Miscellaneous	19,193	-	-	-	-	-	19,193
Total Revenues	14,947,987	359,351	250,788	850,254	624,381	431,819	17,464,580
Expenditures:							
Current:							
General government	627,574	110,272	34,304	-	4,592	19,403	796,145
Public safety	1,552,734	-	17,531	-	31,740	137,600	1,739,605
Education	10,004,589	-	2,500	841,889	532,162	-	11,381,140
Public works	853,125	-	-	-	33,172	230,434	1,116,731
Health and human services	103,956	-	14,070	-	-	18,779	136,805
Culture and recreation	142,707	-	11,252	-	6,000	23,873	183,832
Employee benefits	1,564,455	-	-	-	-	-	1,564,455
Intergovernmental	15,437	-	-	-	-	-	15,437
Debt service	415,065	-	-	-	-	-	415,065
Total Expenditures	15,279,642	110,272	79,657	841,889	607,666	430,089	17,349,215
Excess (deficiency) of revenues over expenditures	(331,655)	249,079	171,131	8,365	16,715	1,730	115,365
Other Financing Sources (Uses):							
Transfers in	168,476	-	15,000	-	10,000	-	193,476
Transfers out	(25,000)	-	(168,476)	-	-	-	(193,476)
Total Other Financing Sources (Uses)	143,476	-	(153,476)	-	10,000	-	-
Change in fund balance	(188,179)	249,079	17,655	8,365	26,715	1,730	115,365
Fund Equity, at Beginning of Year	1,064,484	939,110	394,266	540,541	(524,716)	556,565	2,970,250
Fund Equity, at End of Year	\$ 876,305	\$ 1,188,189	\$ 411,921	\$ 548,906	\$ (498,001)	\$ 558,295	\$ 3,085,615

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 9,722,553	\$ 9,722,553	\$ 9,722,553	\$ -
Excises	747,500	747,500	832,974	85,474
Penalties, interest and other taxes	155,000	155,000	162,169	7,169
Charges for services	72,077	72,077	72,077	-
Intergovernmental	3,128,516	3,128,516	3,210,821	82,305
Licenses and permits	172,500	172,500	202,986	30,486
Fines and forfeitures	19,000	19,000	18,145	(855)
Investment income	7,100	7,100	5,968	(1,132)
Miscellaneous	-	-	19,193	19,193
Transfers in	170,401	170,401	168,476	(1,925)
Other sources	529,654	529,654	529,654	-
Total Revenues and Other Sources	14,724,301	14,724,301	14,945,016	220,715
Expenditures and Other Uses:				
General government	614,301	610,786	602,823	7,963
Public safety	1,508,462	1,551,922	1,551,800	122
Education	9,393,392	9,370,586	9,365,526	5,060
Public works	826,156	853,002	852,696	306
Health and human services	119,402	104,376	103,956	420
Culture and recreation	145,900	143,010	139,496	3,514
Employee benefits	1,589,169	1,561,278	1,549,913	11,365
Intergovernmental	15,749	15,749	15,437	312
Debt service	413,270	415,092	415,065	27
Transfers out	108,500	108,500	108,500	-
Total Expenditures and Other Uses	14,734,301	14,734,301	14,705,212	29,089
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>(10,000)</u>	\$ <u>(10,000)</u>	\$ <u>239,804</u>	\$ <u>249,804</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	<u>Water Fund</u>	<u>Transfer Station Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 400,690	\$ -	\$ 400,690
User fee receivable	<u>101,183</u>	<u>-</u>	<u>101,183</u>
TOTAL ASSETS	501,873	-	501,873
<u>LIABILITIES</u>			
Current:			
Warrants payable	82	55	137
Due to other funds	<u>-</u>	<u>7,097</u>	<u>7,097</u>
TOTAL LIABILITIES	82	7,152	7,234
<u>NET POSITION</u>			
Unrestricted	<u>501,791</u>	<u>(7,152)</u>	<u>494,639</u>
TOTAL NET POSITION	<u>\$ 501,791</u>	<u>\$ (7,152)</u>	<u>\$ 494,639</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 610,692	\$ 210,447	\$ 821,139
Total Operating Revenues	610,692	210,447	821,139
Operating Expenses:			
Salaries and wages	116,985	44,339	161,324
Operating expenses	146,980	150,975	297,955
Capital outlay	78,963	-	78,963
Debt principal (depreciation)	127,548	15,000	142,548
Administrative overhead	49,612	22,465	72,077
Total Operating Expenses	520,088	232,779	752,867
Operating Income	90,604	(22,332)	68,272
Nonoperating Revenues (Expenses):			
Investment income	1,738	1	1,739
Miscellaneous	66,606	9,067	75,673
Interest expense	(102,727)	(6,440)	(109,167)
Total Nonoperating Revenues (Expenses), Net	(34,383)	2,628	(31,755)
Change in Net Position	56,221	(19,704)	36,517
Net Position at Beginning of Year	445,570	12,552	458,122
Net Position at End of Year	\$ 501,791	\$ (7,152)	\$ 494,639

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

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

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 642,203	\$ 210,447	\$ 852,650
Payments to vendors and employees	<u>(393,895)</u>	<u>(210,627)</u>	<u>(604,522)</u>
Net Cash Provided By Operating Activities	248,308	(180)	248,128
 <u>Cash Flows From Noncapital Financing Activities:</u>			
Investment income	1,738	1	1,739
Other nonoperating income	<u>66,606</u>	<u>9,067</u>	<u>75,673</u>
Net Cash Provided By Noncapital Financing Activities	68,344	9,068	77,412
 <u>Cash Flows From Capital and Related Financing Activities:</u>			
Principal payments on bonds and notes	(127,548)	(15,000)	(142,548)
Interest payments	<u>(102,727)</u>	<u>(6,440)</u>	<u>(109,167)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(230,275)</u>	<u>(21,440)</u>	<u>(251,715)</u>
Net Change in Cash and Short-Term Investments	86,377	(12,552)	73,825
Cash and Short Term Investments, Beginning of Year	<u>314,313</u>	<u>12,552</u>	<u>326,865</u>
Cash and Short Term Investments, End of Year	<u>\$ 400,690</u>	<u>\$ -</u>	<u>\$ 400,690</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating income/(loss)	\$ 90,604	\$ (22,332)	\$ 68,272
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation (principal debt)	127,548	15,000	142,548
Changes in assets and liabilities:			
User fees receivable	31,511	-	31,511
Warrants / due to other funds	<u>(1,355)</u>	<u>7,152</u>	<u>5,797</u>
Net Cash Provided By Operating Activities	<u>\$ 248,308</u>	<u>\$ (180)</u>	<u>\$ 248,128</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 167	\$ 97,515
Investments	<u>837</u>	<u>110,035</u>
Total Assets	1,004	207,550
 <u>LIABILITIES</u>		
Other liabilities	<u>-</u>	<u>207,550</u>
Total Liabilities	<u>-</u>	<u>207,550</u>
 <u>NET POSITION</u>		
Total net position held in trust for pension benefits and other purposes	\$ <u>1,004</u>	\$ <u>-</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	<u>OPEB Trust Fund</u>
Additions:	
Interest income	\$ <u>4</u>
Net increase (decrease)	4
Net position:	
Beginning of year	<u>1,000</u>
End of year	\$ <u><u>1,004</u></u>

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

Town of Southamptton, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Southamptton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

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

B. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. 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

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community preservation fund* is a fund authorized by Massachusetts General Laws Chapter 44B, under which the Town receives State aid and assesses taxpayers a surcharge on real property. Within certain limits, the Town may appropriate funds from this account for various purposes that fall under the categories of open space, historic preservation or community housing.
- The *other special revenue funds* is used to account for the receipt and expenditure of certain Town grant funds. These include ambulance, community development block grant, and the October 2011 snow storm fund.
- The *school special revenue funds* is used to account for the receipt and expenditure of School grant funds, primarily the School Choice fund.
- The *capital projects funds* accounts for various capital projects legally authorized by the Town to be funded through appropriation or by permanent borrowing.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund*, which accounts for operations of the Town's water delivery system.
- The *transfer station enterprise fund*, which accounts for the operations of the Town's landfill.

The *OPEB trust fund* is used to account for trust arrangements, under which principal and investment income exclusively benefit individuals.

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 is included under investment income.

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

E. Investments

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

Investments consist of certificates of deposit, corporate bonds, corporate equities, mutual funds, and US Treasury notes. These investments are not carried at market value by the Town; however adjustments have been made to report them at market value in the financial statements.

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" limits 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 or debt exemption is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$95,481.

G. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. 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.

H. 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/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

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

1. 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. Departures from Generally Accepted Accounting Principles

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Town's governmental and business-type activities are not reasonably determinable.
- Management reports the water and transfer station funds on a modified accrual basis of accounting, however, accounting principles generally accepted in the United States require them to be reported on the accrual basis of accounting. The amount by which this departure would affect the assets, liabilities, net assets and expenses of the business-type activities is not reasonably determinable.
- The Town has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended

during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with 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)	\$ 14,947,987	\$ 15,279,642
Other financing sources/uses (GAAP basis)	<u>168,476</u>	<u>25,000</u>
Subtotal (GAAP basis)	15,116,463	15,304,642
Remove the effect of adding the Town's Stabilization fund per GASB 54	(405)	83,500
Adjust tax revenue to accrual basis	(61,633)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(46,971)
Add end of year appropriation carryforwards to expenditures	-	3,104
To reverse the effect of non-budgeted State contributions for teachers retirement	(639,063)	(639,063)
Recognize use of fund balance as funding source	<u>529,654</u>	<u>-</u>
Budgetary basis	<u>\$ 14,945,016</u>	<u>\$ 14,705,212</u>

D. Deficit Fund Equity

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

October Snow Storm	\$(110,600)
Capital Project Funds	(527,306)
Transfer Station Enterprise Fund	(7,152)

The Town anticipates funding these deficits with Federal Highway grant funds, Town appropriations and/or bond proceeds.

E. Unbalanced Budget

The budgeted appropriations on page 6 exceed budgeted revenue by \$10,000 due to an authorized appropriation being omitted from the Town's tax recap and therefore not funded.

4. 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 Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company,

unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2014, \$837,236 of the Town’s bank balance of \$4,163,585 was exposed to custodial credit risk as uninsured and/or uncollateralized. The underlying securities of the Town’s deposit in repurchase agreements of \$328,574 are held by the investment’s counterparty, not in the name of the Town.

5. 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 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>Rating</u>			<u>Exempt from Disclosure</u>
		<u>AAA</u>	<u>AA</u>	<u>BBB</u>	
Certificates of deposit	\$ 400,581	\$ -	\$ -	\$ -	\$ 400,581
Corporate bonds	112,438	-	50,358	35,480	26,600
Corporate equities	108,236	-	-	-	108,236
Mutual funds	112,113	-	-	-	112,113
US Treasury notes/ bonds	<u>238,505</u>	<u>238,505</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	\$ <u>971,873</u>	\$ <u>238,505</u>	\$ <u>50,358</u>	\$ <u>35,480</u>	\$ <u>647,530</u>

B. Custodial Credit Risk

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

\$321,292 of the Town’s investments are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

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 Federal agency securities) that represent 5% or more of total investments are as follows:

American Express	\$60,013
BMW Bank North America	\$90,102
First Bank CD	\$60,359
General Electric Bond	\$50,359
State Bank CD	\$75,446

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:

Investment Type	Fair Value	Exempt from Disclosure	Investment Maturities In Years			
			Less than 1 year	1-5 years	6-10 years	10+ years
Certificates of deposit	\$ 400,581	\$ -	\$ 400,581	\$ -	\$ -	\$ -
Corporate bonds	112,438	-	85,838	-	10,600	16,000
Corporate equities	108,236	108,236	-	-	-	-
Mutual funds	112,113	112,113	-	-	-	-
US Treasury notes/ bonds	<u>238,505</u>	<u>-</u>	<u>-</u>	<u>238,505</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 971,873</u>	<u>\$ 220,349</u>	<u>\$ 486,419</u>	<u>\$ 238,505</u>	<u>\$ 10,600</u>	<u>\$ 16,000</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; however, the risk is managed by limiting the investments to the Commonwealth’s “Legal List of Investments”.

6. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the

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

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

Taxes receivable in the general fund at June 30, 2014 consist of the following:

Real Estate and Personal Property	
2014	\$ 100,904
2013	<u>11,382</u>
Total Real Estate and Personal Property	\$ <u>112,286</u>
Tax Liens	\$ 185,360
Tax Foreclosures	<u>32,431</u>
Total Tax Liens and Foreclosures	\$ <u>217,791</u>

7. Intergovernmental Receivables

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

8. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

9. Warrants Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law.

10. Notes Payable

The Town had the following notes outstanding at June 30, 2014:

	Interest Rate %	Date of Issue	Date of Maturity	Balance at June 30, 2014
Grant anticipation	0.64%	07/26/13	07/25/14	\$ 110,600
Bond anticipation	0.48%	05/15/14	10/01/14	<u>623,358</u>
				<u>\$ 733,958</u>

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Grant anticipation	\$ 393,000	\$ 110,600	\$ (393,000)	\$ 110,600
Bond anticipation	<u>-</u>	<u>1,823,358</u>	<u>(1,200,000)</u>	<u>623,358</u>
Total	<u>\$ 393,000</u>	<u>\$ 1,933,958</u>	<u>\$ (1,593,000)</u>	<u>\$ 733,958</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>Bonds Payable -</u>	Serial	Interest	Amount Outstanding as of
<u>Governmental Activities:</u>	<u>Maturities</u>	<u>Rate(s)%</u>	<u>June 30, 2014</u>
	<u>Through</u>		
MVPAT - Pequot Pond Sewer	08/01/19	1.0 - 2.0	\$ 115,000
MVPAT - Title V Loans	08/01/20	1.0 - 2.0	72,600
MVPAT - Septic Betterment	07/15/25	-	90,000
MVPAT - Septic Betterment	07/15/27	-	35,000
Larrabee Renovation	06/30/30	2.0 - 5.0	<u>1,745,000</u>
Total Bonds Payable - Governmental Activities			\$ 2,057,600
<u>Bonds Payable -</u>			
<u>Business-Type Activities:</u>			
MVPAT - Landfill capping	08/01/19	1.0 - 2.0	\$ 110,000
MVPAT - Country Road (Water)	08/01/19	1.0 - 2.0	365,000
MVPAT - Water system upgrade	08/01/22	1.0 - 2.0	565,000
Water system expansion (RDA Loan)	04/06/33	5.63	347,113
Water system expansion # 3 (RDA Loan)	10/01/35	5.38	<u>526,795</u>
Total Bonds Payable - Business-Type Activities			<u>\$ 1,913,908</u>
Total Bonds Payable			<u>\$ 3,971,508</u>

<u>Notes Payable - Governmental Activities:</u>	<u>Intended Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2014</u>
Fire department truck *	2020	4.25	\$ <u>158,700</u>
Total Notes Payable - Governmental Activities			\$ <u><u>158,700</u></u>

* This borrowing is a combination of several short-term notes intended to finance this purchase over a period of time. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year. The interest rate reported is the interest rate for the short-term note issued in fiscal year 2014 and due in fiscal year 2015.

B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their sewer systems.

Some of the Town's loans are administered through the Massachusetts Water Pollution Abatement Trust (MWPAT) Revolving Loan Program. The following is a summary of MWPAT loan balances at June 30, 2014:

<u>Loan Number</u>	<u>Issue Date</u>	<u>Original Loan Balance</u>	<u>Principal Subsidy</u>	<u>Balance June 30, 2014</u>
98-138	10/06/99	\$ 246,801	\$ (71,800)	\$ 115,000
98-112	10/06/99	299,650	(80,597)	110,000
99-12	10/09/99	995,870	(232,992)	365,000
97-1165	08/01/02	197,403	-	72,600
DW-00-18	11/11/04	985,403	(258,850)	565,000
97-1185-1	10/16/05	150,000	-	90,000
97-1185-2B	12/18/07	50,000	-	35,000

C. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 171,850	\$ 83,710	\$ 255,560
2016	176,850	79,433	256,283
2017	176,850	72,315	249,165
2018	176,850	64,717	241,567
2019	176,850	58,249	235,099
2020 - 2024	667,050	203,071	870,121
2025 - 2029	565,000	87,724	652,724
Thereafter	<u>105,000</u>	<u>4,372</u>	<u>109,372</u>
Total	\$ <u>2,216,300</u>	\$ <u>653,591</u>	\$ <u>2,869,891</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 148,787	\$ 62,709	\$ 211,496
2016	155,092	58,594	213,686
2017	166,469	54,189	220,658
2018	167,922	49,930	217,852
2019	179,453	46,187	225,640
2020 - 2024	528,366	190,553	718,919
2025 - 2029	226,457	131,678	358,135
Thereafter	<u>341,362</u>	<u>68,256</u>	<u>409,618</u>
Total	\$ <u>1,913,908</u>	\$ <u>662,096</u>	\$ <u>2,576,004</u>

D. Changes in General Long-Term Liabilities

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

	<u>Total Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2014</u>	<u>Less Current Portion</u>	<u>Long-Term Portion June 30, 2014</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 2,328,000	\$ -	\$ (270,400)	\$ 2,057,600	\$ (145,400)	\$ 1,912,200
Other:						
Notes payable	197,742	-	(39,042)	158,700	(26,450)	132,250
Landfill monitoring	119,735	10,885	-	130,620	(10,885)	119,735
Net OPEB Obligation	<u>572,992</u>	<u>579,075</u>	<u>-</u>	<u>1,152,067</u>	<u>-</u>	<u>1,152,067</u>
Totals	\$ <u>3,218,469</u>	\$ <u>589,960</u>	\$ <u>(309,442)</u>	\$ <u>3,498,987</u>	\$ <u>(182,735)</u>	\$ <u>3,316,252</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 2,056,458	\$ -	\$ (142,550)	\$ 1,913,908	\$ (148,787)	\$ 1,765,121
Other:						
Net OPEB Obligation	<u>9,624</u>	<u>9,726</u>	<u>-</u>	<u>19,350</u>	<u>-</u>	<u>19,350</u>
Totals	\$ <u>2,066,082</u>	\$ <u>9,726</u>	\$ <u>(142,550)</u>	\$ <u>1,933,258</u>	\$ <u>(148,787)</u>	\$ <u>1,784,471</u>

12. Landfill 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. The Town stopped accepting waste and the closure process was completed in fiscal year 1996. Closure costs were funded by permanent bonds and a State grant. Monitoring costs are expected to be funded through annual appropriations.

The Town estimates its post-closure care liability at June 30, 2014 to be \$130,620, which represents the estimated annual monitoring costs of \$10,885 for the next 12 years. This amount is based on what it would cost to perform all post-closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Deferred Inflows of Resources

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

The deferred inflow of resources balance as of June 30, 2014 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred inflows account is equal to the total of all June 30, 2014 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

14. Transfers In/Out

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 Town 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, proprietary and fiduciary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund ⁽¹⁾	\$ 168,476	\$ 25,000
Other special revenue funds	15,000	168,476
Capital project funds	<u>10,000</u>	<u>-</u>
Grand Total	\$ <u>193,476</u>	\$ <u>193,476</u>

⁽¹⁾ Transfers in and out between the general fund and the stabilization funds were netted on page 5 to eliminate activity within the general governmental funds.

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.

15. Governmental Funds – Balances

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

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

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

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes 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 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 capital

projects funded by appropriation and the balance in the community preservation fund.

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 and deficit fund balances.

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

	General Fund	Community Preservation Fund	Other Special Revenue Fund	School Special Revenue Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable							
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 361,765	\$ 361,765
Total Nonspendable	-	-	-	-	-	361,765	361,765
Restricted							
Special revenue funds	-	-	522,521	548,906	-	41,826	1,113,253
Expendable permanent funds	-	-	-	-	-	154,704	154,704
Total Restricted	-	-	522,521	548,906	-	196,530	1,267,957
Committed							
Community preservation fund	-	1,188,189	-	-	-	-	1,188,189
Capital projects funded by appropriation	-	-	-	-	29,305	-	29,305
Total Committed	-	1,188,189	-	-	29,305	-	1,217,494
Assigned							
Reserve for encumbrances	3,104	-	-	-	-	-	3,104
Total Assigned	3,104	-	-	-	-	-	3,104
Unassigned							
General fund	612,018	-	-	-	-	-	612,018
Stablization fund	261,183	-	-	-	-	-	261,183
Deficit fund balances	-	-	(110,600)	-	(527,306)	-	(637,906)
Total Unassigned	873,201	-	(110,600)	-	(527,306)	-	235,295
Total Fund Balance	\$ 876,305	\$ 1,188,189	\$ 411,921	\$ 548,906	\$ (498,001)	\$ 558,295	\$ 3,085,615

16. Subsequent Events

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

	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
Bond anticipation	\$ 95,600	0.50%	07/25/14	07/24/15
Bond anticipation ⁽¹⁾	137,000	0.92%	10/01/14	10/01/15
Bond anticipation ⁽¹⁾	134,000	0.92%	10/01/14	10/01/16
Bond anticipation ⁽¹⁾	135,000	0.92%	10/01/14	10/01/17

⁽¹⁾ These borrowings represent a combination of several short-term notes intended to finance these purchases over varying periods of time. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year and will be reported as long-term debt in the subsequent year.

17. Commitments and Contingencies

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

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

Self-Insurance - The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of March 31, 2014 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$175,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At March 31, 2014, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$3.3 million, the Trust was in a surplus position of approximately \$27.1 million.

18. Post-Employment Health Care and Life Insurance Benefits

GASB Statement No. 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 revenues, expenses, and changes in net position 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 in the previous footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's. 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 52 retirees and 68 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, dental 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

As of the date of the actuarial, retirees contributed 50% of the cost of the health plan, based on the type of plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

	Governmental Activities	Water Fund	Transfer Station Fund	Total
Annual Required Contribution (ARC)	\$ <u>753,968</u>	\$ <u>1,645</u>	\$ <u>11,019</u>	\$ <u>766,632</u>
Annual OPEB cost	753,968	1,645	11,019	766,632
Contributions made	<u>(174,893)</u>	<u>(382)</u>	<u>(2,556)</u>	<u>(177,831)</u>
Increase in net OPEB obligation	579,075	1,263	8,463	588,801
Net OPEB obligation - beginning of year	<u>572,992</u>	<u>1,250</u>	<u>8,374</u>	<u>582,616</u>
Net OPEB obligation - end of year	\$ <u>1,152,067</u>	\$ <u>2,513</u>	\$ <u>16,837</u>	\$ <u>1,171,417</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:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 766,632	23.2%	\$ 1,171,417
2013	\$ 723,353	19.5%	\$ 582,616

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)	\$ 9,216,943
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>9,216,943</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>5,370,621</u>
UAAL as a percentage of covered payroll	<u>171.6%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, pre-

sents 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.

In May 2013 the Town established an OPEB Trust Fund under MGL Chapter 32B, Section 20. The balance in the trust fund is \$1,004 as of June 30, 2014.

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 not determined as the Town had not advance funded its obligation at that time. The actuarial assumptions include a 4% investment rate of return and an initial annual healthcare cost trend rate of 7.5% which decreases to a 4.5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

19. Pension Plan

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

A. Plan Description

The Town contributes to the Hampshire County 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 which can be obtained through the Hampshire County Retirement System at 99 Industrial Drive, Northampton, Massachusetts.

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 contribution to the System for the year ended June 30, 2014, 2013 and 2012 were \$495,677, \$492,593 and \$449,168, respectively, which were equal to its annual required contribution for each of these years.

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

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

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

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

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

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

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

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$639,063 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

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

21. Implementation of New GASB Standard

The GASB has issued Statement No. 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 Hampshire County Retirement System's actuarially accrued liability.

TOWN OF SOUTHAMPTON, MASSACHUSETTS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 JUNE 30, 2014

(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	-	\$ 9,217	\$ 9,217	0%	5,371	171.6%

HAMPSHIRE COUNTY RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

(amounts expressed in thousands)

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

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]
01/01/14	\$ 235,618	\$ 416,553	\$ 180,935	56.6%	\$ 73,422	246.4%
01/01/12	\$ 204,116	\$ 367,511	\$ 163,395	55.5%	\$ 68,575	238.3%
01/01/10	\$ 179,861	\$ 312,878	\$ 133,017	57.5%	\$ 68,276	194.8%
01/01/08	\$ 163,497	\$ 257,885	\$ 94,388	63.4%	\$ 68,108	138.6%

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

Plan Year End	System Wide			Town	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 16,366	\$ 16,344	100%	\$ 496	3.0%
12/31/12	\$ 15,154	\$ 15,154	100%	\$ 493	3.3%
12/31/11	\$ 14,201	\$ 14,201	100%	\$ 449	3.2%
12/31/10	\$ 13,311	\$ 13,311	100%	\$ 452	3.4%

See Independent Auditor's Report.