

TOWN OF NORWOOD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Norwood, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Norwood, 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 Norwood, Massachusetts, as of and for the year ended June 30, 2014, (except for the Town of Norwood, Massachusetts' Contributory Retirement System which is as of and for the year ended December 31, 2013) and the related notes to the financial statements, which collectively comprise the Town of Norwood, Massachusetts' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 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

October 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$64,115,235 (i.e., net position), a change of \$1,352,690 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$23,519,945, a change of \$5,611,312 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,377,582, which includes a stabilization balance of \$2,464,348.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$133,917,024, a change of \$2,688,789 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 35,418	\$ 32,001	\$ 28,192	\$ 30,149	\$ 63,610	\$ 62,150
Capital assets	<u>152,693</u>	<u>148,856</u>	<u>35,753</u>	<u>36,142</u>	<u>188,446</u>	<u>184,998</u>
Total assets	188,111	180,857	63,945	66,291	252,056	247,148
Long-term liabilities outstanding	89,701	76,916	69,747	76,138	159,448	153,054
Other liabilities	<u>15,646</u>	<u>16,272</u>	<u>12,847</u>	<u>15,059</u>	<u>28,493</u>	<u>31,331</u>
Total liabilities	105,347	93,188	82,594	91,197	187,941	184,385
Net position:						
Net investment in capital assets	100,447	94,778	20,602	19,600	121,049	114,378
Restricted	3,856	4,864	-	-	3,856	4,864
Unrestricted	<u>(21,539)</u>	<u>(11,973)</u>	<u>(39,251)</u>	<u>(44,506)</u>	<u>(60,790)</u>	<u>(56,479)</u>
Total net position	\$ <u>82,764</u>	\$ <u>87,669</u>	\$ <u>(18,649)</u>	\$ <u>(24,906)</u>	\$ <u>64,115</u>	\$ <u>62,763</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 25,887	\$ 24,427	\$ 49,554	\$ 51,351	\$ 75,441	\$ 75,778
Operating grants and contributions	22,781	21,310	-	-	22,781	21,310
Capital grants and contributions	934	1,271	-	-	934	1,271
General revenues:						
Property taxes	61,045	59,818	-	-	61,045	59,818
Excises	4,006	3,785	-	-	4,006	3,785
Penalties and interest on taxes	1,862	1,953	-	-	1,862	1,953
Grants and contributions not restricted to specific programs	4,522	4,469	-	-	4,522	4,469
Investment income	354	278	491	98	845	376
Other	427	296	41	-	468	296
Total revenues	<u>121,818</u>	<u>117,607</u>	<u>50,086</u>	<u>51,449</u>	<u>171,904</u>	<u>169,056</u>
Expenses:						
General government	7,515	6,663	-	-	7,515	6,663
Public safety	14,636	14,512	-	-	14,636	14,512
Education	58,609	56,088	-	-	58,609	56,088
Public works	9,032	9,242	-	-	9,032	9,242
Water and sewer	10,556	10,549	-	-	10,556	10,549
Broadband cable	5,567	4,871	-	-	5,567	4,871
Health and human services	1,387	1,249	-	-	1,387	1,249
Culture and recreation	3,256	3,115	-	-	3,256	3,115
Employee benefits	18,500	16,683	-	-	18,500	16,683
Interest on long-term debt	1,821	1,727	-	-	1,821	1,727
Intergovernmental	1,247	1,134	-	-	1,247	1,134
Electric	-	-	38,176	36,450	38,176	36,450
Total expenses	<u>132,126</u>	<u>125,833</u>	<u>38,176</u>	<u>36,450</u>	<u>170,302</u>	<u>162,283</u>
Change in net position before transfers	(10,308)	(8,226)	11,910	14,999	1,602	6,773
Transfers in (out)	<u>5,403</u>	<u>8,174</u>	<u>(5,653)</u>	<u>(7,788)</u>	<u>(250)</u>	<u>386</u>
Change in net position	(4,905)	(52)	6,257	7,211	1,352	7,159
Net position - beginning of year	<u>87,669</u>	<u>87,721</u>	<u>(24,906)</u>	<u>(32,117)</u>	<u>62,763</u>	<u>55,604</u>
Net position - end of year	<u>\$ 82,764</u>	<u>\$ 87,669</u>	<u>\$ (18,649)</u>	<u>\$ (24,906)</u>	<u>\$ 64,115</u>	<u>\$ 62,763</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 \$64,115,235 a change of \$1,352,690 from the prior year.

The largest portion of net position \$121,049,601 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any

related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$3,924,830 represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted governmental net position is a deficit of \$(21,607,937) primarily because of unfunded other post-employment benefits (see Note 20). The business-type net assets reflect a deficit balance of \$(39,251,259) because of legal obligations paid in prior years, which will be raised in future utility rates.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(4,904,560). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (4,534,361)
Major fund - accrual basis	3,000,000
Nonmajor fund - accrual basis	193,618
Excess principal maturities, over depreciation a nonbudgeted expense	49,238
Other post employment benefits	(4,342,096)
Other	<u>729,041</u>
Total	<u>\$ (4,904,560)</u>

Business-type activities. Business-type (electric) activities for the year resulted in a change in net position of \$6,257,250.

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 \$23,519,945, a change of \$5,611,312 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$	(4,534,361)
Major fund		7,202,465
Nonmajor funds		<u>2,943,208</u>
Total	\$	<u><u>5,611,312</u></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 \$6,377,582 while total fund balance was \$11,055,565. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 6,377,582	\$ 4,301,400	\$ 2,076,182	5.3%
Total fund balance	\$ 11,055,565	\$ 15,589,926	\$ (4,534,361)	9.2%

The total fund balance of the general fund changed by \$(4,534,361) during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$	2,218,889
Budgetary appropriation surplus		1,044,152
Excess of tax collections over budget		(898,783)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year		(417,715)
Use of free cash and overlay surplus		(2,748,271)
Use of prior year fund balance		(687,753)
Change in stabilization balance		(2,915,792)
Other timing differences		<u>(129,088)</u>
Total	\$	<u><u>(4,534,361)</u></u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 2,464,348	\$ 5,380,140	\$ (2,915,792)

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 \$(39,251,259), a change of \$5,255,424 in comparison to the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

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

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$188,446,579 (net of accumulated depreciation), a change of \$3,449,277 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- \$883,113 – New fire truck
- \$92,232 – New police cruisers
- \$417,965 – New school computers and accessories
- \$387,658 – DPW dump truck
- \$170,555 – Prescott School athletic fields

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$133,917,024, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Norwood'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 Norwood, Massachusetts
566 Washington Street
Norwood, Massachusetts 02062

TOWN OF NORWOOD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 25,100,500	\$ 7,691,186	\$ 32,791,686
Investments	5,066,263	10,454,278	15,520,541
Receivables, net of allowance for uncollectibles:			
Property taxes	643,301	-	643,301
Excises	218,223	-	218,223
User fees	826,112	5,837,284	6,663,396
Departmental and other	364,175	-	364,175
Intergovernmental	2,719,225	-	2,719,225
Deposits held by others	-	4,208,627	4,208,627
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	480,780	-	480,780
Capital assets:			
Land and construction in progress	5,822,774	12,283,224	18,105,998
Other capital assets, net of accumulated depreciation	<u>146,870,409</u>	<u>23,470,172</u>	<u>170,340,581</u>
TOTAL ASSETS	188,111,762	63,944,771	252,056,533
LIABILITIES			
Current:			
Warrants payable	4,708,979	-	4,708,979
Accrued liabilities	1,585,046	1,268,148	2,853,194
Tax refunds payable	461,647	-	461,647
Customer deposits and reserves	-	4,925,908	4,925,908
Notes payable	2,672,646	-	2,672,646
Other current liabilities	439,133	-	439,133
Current portion of long-term liabilities:			
Bonds payable	5,553,343	6,510,000	12,063,343
Compensated absence	132,683	15,980	148,663
Bond premium	72,694	127,248	199,942
Landfill postclosure	20,000	-	20,000
Noncurrent:			
Bonds payable, net of current portion	55,794,781	66,058,900	121,853,681
Compensated absence, net of current portion	2,520,980	303,619	2,824,599
Bond premium, net of current portion	654,251	2,072,058	2,726,309
Landfill postclosure, net of current portion	280,000	-	280,000
Accrued other post-employment benefits	<u>30,451,199</u>	<u>1,312,055</u>	<u>31,763,254</u>
TOTAL LIABILITIES	105,347,382	82,593,916	187,941,298
NET POSITION			
Net investment in capital assets	100,447,487	20,602,114	121,049,601
Restricted for:			
Grants and other statutory restrictions	3,038,369	-	3,038,369
Permanent funds:			
Nonexpendable	479,033	-	479,033
Expendable	407,428	-	407,428
Unrestricted	<u>(21,607,937)</u>	<u>(39,251,259)</u>	<u>(60,859,196)</u>
TOTAL NET POSITION	\$ <u>82,764,380</u>	\$ <u>(18,649,145)</u>	\$ <u>64,115,235</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 7,515,335	\$ 636,681	\$ 1,780,842	\$ -	\$ (5,097,812)	\$ -	\$ (5,097,812)
Public safety	14,635,927	2,574,122	57,561	-	(12,004,244)	-	(12,004,244)
Education	58,608,840	2,267,822	19,695,764	-	(36,645,254)	-	(36,645,254)
Public works	9,032,282	1,226,421	22,341	933,998	(6,849,522)	-	(6,849,522)
Water and sewer	10,555,665	12,451,694	-	-	1,896,029	-	1,896,029
Broadband cable	5,567,197	6,294,995	-	-	727,798	-	727,798
Health and human services	1,386,814	163,210	146,845	-	(1,076,759)	-	(1,076,759)
Culture and recreation	3,256,087	271,561	1,077,860	-	(1,906,666)	-	(1,906,666)
Employee benefits	18,499,659	-	-	-	(18,499,659)	-	(18,499,659)
Interest	1,820,730	-	-	-	(1,820,730)	-	(1,820,730)
Intergovernmental	1,246,486	-	-	-	(1,246,486)	-	(1,246,486)
Total Governmental Activities	132,125,022	25,886,506	22,781,213	933,998	(82,523,305)	-	(82,523,305)
Business-Type Activities:							
Electric light services	38,175,785	49,554,100	-	-	-	11,378,315	11,378,315
Total	\$ 170,300,807	\$ 75,440,606	\$ 22,781,213	\$ 933,998	(82,523,305)	11,378,315	(71,144,990)
General Revenues and Transfers:							
Property taxes					61,045,451	-	61,045,451
Excises					4,005,820	-	4,005,820
Penalties, interest and other taxes					1,862,053	-	1,862,053
Grants and contributions not restricted to specific programs					4,521,776	-	4,521,776
Investment income					353,729	491,064	844,793
Miscellaneous					427,102	40,685	467,787
Transfers, net					5,402,814	(5,652,814)	(250,000)
Total general revenues and transfers					77,618,745	(5,121,065)	72,497,680
Change in Net Position					(4,904,560)	6,257,250	1,352,690
Net Position:							
Beginning of year					87,668,940	(24,906,395)	62,762,545
End of year					\$ 82,764,380	\$ (18,649,145)	\$ 64,115,235

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

TOWN OF NORWOOD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>DPW Facility Major Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 12,518,182	\$ 7,202,465	\$ 5,379,853	\$ 25,100,500
Investments	4,281,277	-	784,986	5,066,263
Receivables:		-		
Property taxes	1,568,082	-	-	1,568,082
Excises	402,150	-	-	402,150
User fees	1,213,553	-	-	1,213,553
Departmental and other	404,640	-	-	404,640
Intergovernmental	73,926	-	2,645,299	2,719,225
TOTAL ASSETS	<u>\$ 20,461,810</u>	<u>\$ 7,202,465</u>	<u>\$ 8,810,138</u>	<u>\$ 36,474,413</u>
LIABILITIES				
Warrants payable	\$ 3,998,017	\$ -	\$ 710,962	\$ 4,708,979
Accrued liabilities	925,098	-	-	925,098
Tax refunds payable	461,647	-	-	461,647
Notes payable	-	-	2,672,646	2,672,646
Other liabilities	439,133	-	-	439,133
TOTAL LIABILITIES	5,823,895	-	3,383,608	9,207,503
DEFERRED INFLOWS OF RESOURCES	3,582,350	-	164,615	3,746,965
FUND BALANCES				
Nonspendable	-	-	479,033	479,033
Restricted	-	7,202,465	4,838,741	12,041,206
Committed	-	-	-	-
Assigned	4,677,983	-	-	4,677,983
Unassigned	6,377,582	-	(55,859)	6,321,723
TOTAL FUND BALANCES	<u>11,055,565</u>	<u>7,202,465</u>	<u>5,261,915</u>	<u>23,519,945</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 20,461,810</u>	<u>\$ 7,202,465</u>	<u>\$ 8,810,138</u>	<u>\$ 36,474,413</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

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

JUNE 30, 2014

Total governmental fund balances	\$ 23,519,945
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	152,693,183
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,664,801
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(659,951)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(95,453,598)</u>
Net position of governmental activities	<u><u>\$ 82,764,380</u></u>

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

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

	<u>General</u>	<u>DPW Facility Major Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 60,844,069	\$ -	\$ -	\$ 60,844,069
Excises	4,094,351	-	-	4,094,351
Penalties, interest and other taxes	1,862,053	-	-	1,862,053
Charges for services	20,589,010	-	3,044,687	23,633,697
Intergovernmental	21,796,283	-	5,897,926	27,694,209
Licenses and permits	2,613,278	-	-	2,613,278
Investment income	266,290	-	87,439	353,729
Miscellaneous	267,993	-	972,806	1,240,799
	<u>112,333,327</u>	<u>-</u>	<u>10,002,858</u>	<u>122,336,185</u>
Expenditures:				
Current:				
General government	5,275,000	-	3,470,827	8,745,827
Public safety	13,756,276	-	1,162,464	14,918,740
Education	48,906,513	-	7,055,166	55,961,679
Public works	9,055,544	2,097,535	1,478,541	12,631,620
Broadband cable	5,554,171	-	-	5,554,171
Water and sewer	9,731,847	-	-	9,731,847
Health and human services	1,160,276	-	165,845	1,326,121
Culture and recreation	2,411,511	-	668,243	3,079,754
Employee benefits	16,590,005	-	-	16,590,005
Debt service	6,773,108	-	-	6,773,108
Intergovernmental	1,246,486	-	-	1,246,486
	<u>120,460,737</u>	<u>2,097,535</u>	<u>14,001,086</u>	<u>136,559,358</u>
Excess (deficiency) of revenues over expenditures	(8,127,410)	(2,097,535)	(3,998,228)	(14,223,173)
Other Financing Sources (Uses):				
Proceeds of bonds	-	6,300,000	8,131,672	14,431,672
Transfers in	6,943,049	3,000,000	-	9,943,049
Transfers out	(3,350,000)	-	(1,190,236)	(4,540,236)
	<u>3,593,049</u>	<u>9,300,000</u>	<u>6,941,436</u>	<u>19,834,485</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,534,361)	7,202,465	2,943,208	5,611,312
Fund Equity, at Beginning of Year	<u>15,589,926</u>	<u>-</u>	<u>2,318,707</u>	<u>17,908,633</u>
Fund Equity, at End of Year	<u>\$ 11,055,565</u>	<u>\$ 7,202,465</u>	<u>\$ 5,261,915</u>	<u>\$ 23,519,945</u>

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

TOWN OF NORWOOD, 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, 2014

Net changes in fund balances - total governmental funds	\$ 5,611,312										
<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="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="width: 20%; text-align: right;">8,777,333</td> </tr> <tr> <td>Dispositions</td> <td style="text-align: right;">(5,885)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(4,933,973)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right; margin-left: 40px;">(892,322)</div> • 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="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Issuance of debt</td> <td style="width: 20%; text-align: right;">(14,052,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">4,983,211</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right; margin-left: 40px;">(103,527)</div> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <div style="text-align: right; margin-left: 40px;">53,387</div> • Accrued other post-employment benefits not reported in governmental funds <div style="text-align: right; margin-left: 40px;"><u>(4,342,096)</u></div> 		Capital outlay purchases	8,777,333	Dispositions	(5,885)	Depreciation	(4,933,973)	Issuance of debt	(14,052,000)	Repayments of debt	4,983,211
Capital outlay purchases	8,777,333										
Dispositions	(5,885)										
Depreciation	(4,933,973)										
Issuance of debt	(14,052,000)										
Repayments of debt	4,983,211										
Change in net position of governmental activities	\$ <u><u>(4,904,560)</u></u>										

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

TOWN OF NORWOOD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 61,742,852	\$ 61,742,852	\$ 61,742,852	\$ -
Excise	3,710,345	3,710,345	4,094,351	384,006
Charges for services	19,464,132	19,464,132	20,589,010	1,124,878
Penalties, interest and other taxes	1,990,309	1,990,309	1,862,053	(128,256)
Licenses and permits	2,179,747	2,179,747	2,613,278	433,531
Intergovernmental	11,567,075	11,176,539	11,212,400	35,861
Investment income	37,147	37,147	37,082	(65)
Miscellaneous	48,083	48,083	243,772	195,689
Transfers in	6,862,176	6,862,176	7,035,421	173,245
Use of prior year fund balance	242,906	687,753	687,753	-
Use of free cash	1,376,000	2,748,271	2,748,271	-
Other sources	32,700	32,700	32,700	-
Total Revenues and Other Sources	109,253,472	110,680,054	112,898,943	2,218,889
Expenditures and Other Uses:				
General government	5,541,126	5,541,126	5,359,783	181,343
Public safety	13,710,968	13,855,468	13,762,081	93,387
Education	38,513,729	38,513,729	38,493,361	20,368
Public works	7,230,610	8,141,553	8,035,089	106,464
Broadband cable	5,585,298	5,585,298	5,382,897	202,401
Water and sewer	9,746,687	9,746,687	9,743,116	3,571
Health and human services	1,186,271	1,186,271	1,161,871	24,400
Culture and recreation	2,544,633	2,544,633	2,475,044	69,589
Debt service	6,652,695	6,652,695	6,649,871	2,824
Intergovernmental	1,246,486	1,246,486	1,246,486	-
Employee benefits	17,244,969	17,616,108	17,276,303	339,805
Transfer out	50,000	50,000	50,000	-
Total Expenditures and Other Uses	109,253,472	110,680,054	109,635,902	1,044,152
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,263,041	\$ 3,263,041

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

TOWN OF NORWOOD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities <u>Enterprise Funds</u>
	Electric Light <u>Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 7,691,186
Investments	10,454,278
Accounts receivable	5,837,284
Deposits held by others	<u>4,208,627</u>
Total current assets	28,191,375
Noncurrent:	
Capital Assets	
Land and construction in progress	12,283,224
Other capital assets, net of accumulated depreciation	<u>23,470,172</u>
Total noncurrent assets	<u>35,753,396</u>
TOTAL ASSETS	63,944,771
LIABILITIES	
Current:	
Accrued liabilities	1,268,148
Customer deposits and reserves	4,925,908
Current portion of long-term liabilities:	
Bonds payable	6,510,000
Compensated absence	15,980
Bond premium	<u>127,248</u>
Total current liabilities	12,847,284
Noncurrent:	
Bonds payable, net of current portion	66,058,900
Compensated absence, net of current portion	303,619
Bond premium, net of current portion	2,072,058
Accrued other post-employment benefits	<u>1,312,055</u>
Total noncurrent liabilities	<u>69,746,632</u>
TOTAL LIABILITIES	82,593,916
NET POSITION	
Net investment in capital assets	20,602,114
Unrestricted	<u>(39,251,259)</u>
TOTAL NET POSITION	<u>\$ (18,649,145)</u>

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

TOWN OF NORWOOD, 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 Electric Light Fund
Operating Revenues:	
Charges for services	\$ 49,554,100
Other	<u>40,685</u>
Total Operating Revenues	49,594,785
Operating Expenses:	
Operating expenses	32,250,740
Depreciation	1,312,056
Other	<u>1,433,998</u>
Total Operating Expenses	<u>34,996,794</u>
Operating Income	14,597,991
Nonoperating Revenues (Expenses):	
Interest expense	(3,178,991)
Investment income	<u>491,064</u>
Total Nonoperating Revenues (Expenses), Net	<u>(2,687,927)</u>
Income Before Transfers	11,910,064
Transfers:	
Transfers out	<u>(5,652,814)</u>
Change in Net Position	6,257,250
Net Position at Beginning of Year	<u>(24,906,395)</u>
Net Position at End of Year	<u>\$ (18,649,145)</u>

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

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

	Business-Type Activities <u>Enterprise Funds</u> Electric Light Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 49,949,610
Payments to vendors and employees	<u>(35,664,575)</u>
Net Cash Provided by Operating Activities	14,285,035
<u>Cash Flows From Noncapital Financing Activities:</u>	
Allocation of customer deposits	(218,465)
Transfers out	<u>(5,652,814)</u>
Net Cash (Used For) Noncapital Financing Activities	(5,871,279)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(948,834)
Principal payments on bonds and notes	(6,380,000)
Interest expense	<u>(3,178,991)</u>
Net Cash (Used For) Capital and Related Financing Activities	(10,507,825)
<u>Cash Flows From Investing Activities:</u>	
Investment income	491,064
Change in investments	<u>(114,813)</u>
Net Cash Provided by Investing Activities	<u>376,251</u>
Net Change in Cash and Short-Term Investments	(1,717,818)
Cash and Short-Term Investments, Beginning of Year	<u>9,409,004</u>
Cash and Short-Term Investments, End of Year	<u>\$ 7,691,186</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 14,597,991
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,337,032
Changes in assets and liabilities:	
User fees	354,825
Other assets	(294)
Warrants and accounts payable	(82)
Accrued liabilities	(1,877,189)
Other liabilities	<u>(127,248)</u>
Net Cash Provided By Operating Activities	<u>\$ 14,285,035</u>

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

TOWN OF NORWOOD, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

	Pension Trust Fund (For the Year Ended December 31, 2013)	Other Post-Employment Benefits Trust Fund	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 2,016,844	\$ -	\$ 724,097
Investments	131,906,002	257,030	-
Accounts receivable	<u>466,559</u>	<u>-</u>	<u>126,525</u>
Total Assets	134,389,405	257,030	850,622
 <u>LIABILITIES AND NET POSITION</u>			
Accounts payable	-		47,594
Other liabilities	<u>393,985</u>	<u>-</u>	<u>676,503</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>-</u>	 <u>-</u>	 <u>126,525</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	 <u>393,985</u>	 <u>-</u>	 <u>850,622</u>
 <u>NET POSITION</u>			
Total net position held in trust	 <u>\$ 133,995,420</u>	 <u>\$ 257,030</u>	 <u>\$ -</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (For the Year Ended December 31, 2013)	Other Post-Employment Benefits Trust Fund
Additions:		
Contributions:		
Employers	\$ 3,595,000	\$ -
Other systems and Commonwealth of Massachusetts	322,027	-
Plan members	2,787,084	-
Other	74,151	-
Transfers in	<u>-</u>	<u>250,000</u>
Total contributions	6,778,262	250,000
Investment Income:		
Increase in fair value of investments	18,462,166	7,030
Less: management fees	<u>(672,978)</u>	<u>-</u>
Net investment income	<u>17,789,188</u>	<u>7,030</u>
Total additions	24,567,450	257,030
Deductions:		
Benefit payments to plan members and beneficiaries	9,304,869	-
Refunds to plan members	157,111	-
Administrative expenses	383,775	-
Other	<u>215,217</u>	<u>-</u>
Total deductions	<u>10,060,972</u>	<u>-</u>
Net increase	14,506,478	257,030
Net position:		
Beginning of year	<u>119,488,942</u>	<u>-</u>
End of year	<u>\$ 133,995,420</u>	<u>\$ 257,030</u>

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

TOWN OF NORWOOD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Norwood Retirement System (the System) – The system is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the Town Accountant who serves ex officio; two individuals elected by the participants in the system; and individual appointed by the Board of Selectmen; and an individual chosen by the members. The system provides pension benefits to retired Town employees. Other financial information for the System can be obtained from the office of the Retirement Board, Norwood Town Hall, 566 Washington Street, 3rd Floor, Norwood, Massachusetts 02062.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days

of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *DPW facility construction capital project fund* is used to account for activities relating to the new DPW facility project.

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

The Town reports the following major proprietary funds:

- Electric Light (Enterprise) Fund: To account for the operation of the Town's Electric Light operations, which provide electric power to commercial and residential citizens in the Town of Norwood.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *other post-employment benefits trust fund* is used to account for assets that are dedicated to providing benefits to retirees. These funds reduce the unfunded actuarial liability of healthcare and other post-employment benefits. Contributions to this fund are irrevocable.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$11,400.

G. Capital Assets

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

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

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

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

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

H. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 112,333,327	\$ 120,460,737
Other financing sources/uses (GAAP basis)	<u>6,943,049</u>	<u>3,350,000</u>
Subtotal (GAAP Basis)	119,276,376	123,810,737
Adjust tax revenue to accrual basis	898,783	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,795,698)
Add end-of-year appropriation carryforwards from expenditures	-	3,377,983
To record use of free cash	2,748,271	-
To record use of prior year appro- priations (fund balance)	687,753	-
Other sources	32,700	-
To reverse the effect of non- budgeted State contributions	(10,583,883)	(10,583,883)
To remove unbudgeted stabilization fund	(134,208)	(3,050,000)
Other timing differences	<u>(26,849)</u>	<u>(123,237)</u>
Budgetary basis	<u>\$ 112,898,943</u>	<u>\$ 109,635,902</u>

D. Deficit Fund Equity

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

MWPAT project	\$ (53,680)
Road facility repairs	<u>(2,179)</u>
	<u>\$ (55,859)</u>

This deficit will be eliminated through future bond proceeds.

3. Cash and Short-Term Investments

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System does not have a deposit policy for custodial credit risk.

As of June 30, 2014 and December 31, 2013, \$95,821 and \$1,953,786 of the Town's and System's bank balances of \$33,806,375 and \$2,203,786, respectively, were exposed to custodial credit risk as uninsured or uncollateralized.

4. **Investments**

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End Aaa</u>
U.S. Treasury	\$ 519		\$ -	\$ 519
Certificates of deposits	5,346		-	5,346
Corporate bonds	1,140		-	1,140
Corporate equities	1,480	N/A	1,480	-
Mutual funds	4,982	N/A	4,982	-
Federal agency securities	<u>2,311</u>		<u>-</u>	<u>2,311</u>
Total investments	<u>\$ 15,778</u>		<u>\$ 6,462</u>	<u>\$ 9,316</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in

the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Presented below is the actual rating as of year-end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End Aaa</u>
U.S. Treasury	\$ 6,098	N/A	\$ -	\$ 6,098
Corporate equities	28,020	N/A	28,020	-
Mutual funds	<u>97,788</u>	N/A	<u>97,788</u>	-
Total investments	<u>\$ 131,906</u>		<u>\$ 125,808</u>	<u>\$ 6,098</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.

All of the Town's and System's investments of \$15,777,571 and \$131,906,002 respectively, are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the Town's and System's brokerage firm, which is also the counterparty to these securities. The Town and System manage this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town's name.

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>	<u>% of Total Investments</u>
Federal national mortgage assn	\$ 609	4%
Federal home mortgage corp	1,435	9%
Federal home loan bank	267	2%

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of

the PRIT Fund. The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Debt Related Securities:						
U.S. Treasury	\$ 519	\$ -	\$ 519	\$ -	\$ -	\$ -
Certificates of deposit	5,346	4,855	491	-	-	-
Corporate bonds	1,140	102	933	105	-	-
Corporate equities	1,480	-	-	-	-	1,480
Mutual funds	4,982	-	-	-	-	4,982
Federal agency securities	2,311	152	1,862	297	-	-
Total	\$ 15,778	\$ 5,109	\$ 3,805	\$ 402	\$ -	\$ 6,462

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Debt Related Securities:						
U.S. Treasury	\$ 6,098	\$ 6	\$ 2,763	\$ 1,856	\$ 1,473	\$ -
Corporate equities	28,020	-	-	-	-	28,020
Mutual funds	97,788	-	-	-	-	97,788
Total	\$ 131,906	\$ 6	\$ 2,763	\$ 1,856	\$ 1,473	\$ 125,808

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. Neither the Town nor the Retirement System has policies for foreign currency risk.

5. Taxes Receivable

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

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

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

Real Estate		
2014	\$ 734	
2011	1	
Prior	<u>1</u>	
		736
Personal Property		
2014	100	
2013	30	
2012	21	
2011	24	
Prior	<u>176</u>	
		351
Tax Liens		<u>481</u>
Total		<u>\$ 1,568</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	\$ 444	\$ -
Excises	\$ 184	\$ -
Utilities	\$ -	\$ 428

7. Intergovernmental Receivables

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

8. Interfund Fund Transfers

Transfers between Governmental and Business-Type Activities do not offset by \$(250,000). This is due to a transfer between the Other Post-Employment Benefits Trust fund and Governmental funds.

9. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 83,770	\$ 66,834	\$ -	\$ 150,604
Machinery, equipment, and furnishings	19,289	2,336	(569)	21,056
Infrastructure	81,723	2,568	-	84,291
	<u>184,782</u>	<u>71,738</u>	<u>(569)</u>	<u>255,951</u>
Total capital assets, being depreciated	184,782	71,738	(569)	255,951
Less accumulated depreciation for:				
Buildings and improvements	(44,183)	(1,399)	-	(45,582)
Machinery, equipment, and furnishings	(13,234)	(1,170)	563	(13,841)
Infrastructure	(47,293)	(2,365)	-	(49,658)
	<u>(104,710)</u>	<u>(4,934)</u>	<u>563</u>	<u>(109,081)</u>
Total accumulated depreciation	(104,710)	(4,934)	563	(109,081)
Total capital assets, being depreciated, net	80,072	66,804	(6)	146,870
Capital assets, not being depreciated:				
Land	1,083	-	-	1,083
Construction in progress	67,701	3,493	(66,454)	4,740
	<u>68,784</u>	<u>3,493</u>	<u>(66,454)</u>	<u>5,823</u>
Total capital assets, not being depreciated	68,784	3,493	(66,454)	5,823
Governmental activities capital assets, net	<u>\$ 148,856</u>	<u>\$ 70,297</u>	<u>\$ (66,460)</u>	<u>\$ 152,693</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 14,316	\$ -	\$ -	\$ 14,316
Machinery, equipment, and furnishings	3,435	149	-	3,584
Infrastructure	<u>41,084</u>	<u>774</u>	<u>-</u>	<u>41,858</u>
Total capital assets, being depreciated	58,835	923	-	59,758
Less accumulated depreciation for:				
Buildings and improvements	(2,456)	(363)	-	(2,819)
Machinery, equipment, and furnishings	(2,442)	(188)	-	(2,630)
Infrastructure	<u>(30,053)</u>	<u>(786)</u>	<u>-</u>	<u>(30,839)</u>
Total accumulated depreciation	<u>(34,951)</u>	<u>(1,337)</u>	<u>-</u>	<u>(36,288)</u>
Total capital assets, being depreciated, net	23,884	(414)	-	23,470
Capital assets, not being depreciated:				
Land	14	-	-	14
Construction in progress	<u>12,244</u>	<u>25</u>	<u>-</u>	<u>12,269</u>
Total capital assets, not being depreciated	<u>12,258</u>	<u>25</u>	<u>-</u>	<u>12,283</u>
Business-type activities capital assets, net	<u>\$ 36,142</u>	<u>\$ (389)</u>	<u>\$ -</u>	<u>\$ 35,753</u>

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

Governmental Activities:	
General government	\$ 386
Public safety	807
Education	860
Public works	1,798
Culture and recreation	63
Human services	196
Water and sewer	<u>824</u>
Total depreciation expense - governmental activities	<u>\$ 4,934</u>
Business-Type Activities:	
Light	\$ <u>1,337</u>
Total depreciation expense - business-type activities	<u>\$ 1,337</u>

10. Warrants Payable

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

11. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

12. Notes Payable

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/14</u>
State Aid Anticipation Note	0.40%	08/13/13	09/30/14	\$ 138,282
MWPAT Interim Loan Meadowbrook	0.11%	05/15/14	09/01/14	<u>2,534,364</u>
Total				<u>\$ 2,672,646</u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
High School Construction	\$ 3,800,000	\$ -	\$ (3,800,000)	\$ -
Town Hall Renovation	2,650,000	-	(2,650,000)	-
Aerial Ladder Truck	1,100,000	-	(1,100,000)	-
Broadband Equipment	250,000	-	(250,000)	-
State Aid Anticipation Note	-	138,282	-	138,282
MWPAT Interim Loan Meadowbrook	-	<u>2,534,364</u>	-	<u>2,534,364</u>
Total	<u>\$ 7,800,000</u>	<u>\$ 2,672,646</u>	<u>\$ (7,800,000)</u>	<u>\$ 2,672,646</u>

13. 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 6/30/14</u>
MWRA Sewer Bond	8/15/2013	0.000%	\$ 49,548
GOB - Airport Runway Design	10/15/2014	1.342%	10,000
GOB - Airport Parking Lot	10/15/2014	1.391%	40,000
GOB - Portable Classrooms	10/15/2014	1.362%	15,000
GOB - DPW Equipment	10/15/2014	1.389%	60,000
MWRA Water Bond	6/30/2015	0.000%	102,793
MWRA Water Bond	11/15/2015	0.000%	12,000
MWRA Water Bond	2/15/2016	0.000%	20,000
MWRA Water Bond	8/15/2016	0.000%	260,377
MWRA Water Bond	8/15/2016	0.000%	401,342
Broad Band Equipment Upgrade	10/15/2016	2.044%	440,000
MWRA Water Bond	8/15/2017	0.000%	154,000
MWRA Water Bond	8/15/2017	0.000%	321,462
MWRA Sewer Bond	5/15/2018	0.000%	264,000
GOB - Library Remodeling (I) Refunding	1/15/2019	2.190%	320,100
MWRA Water Bond	8/15/2019	0.000%	308,379
GOB - Water Department Equipment	10/15/2019	1.909%	35,000
GOB - Fire Department Equipment	10/15/2019	1.948%	400,000
Water Pollution Abatement Trust (I)	6/30/2020	5.344%	315,000
Water Pollution Abatement Trust (I)	6/30/2020	5.350%	90,000
MWRA Water Bond	8/15/2020	0.000%	348,826
GOB - Landfill Closure (O) Refunding	1/15/2021	2.480%	626,000
General Obligation Bond	1/15/2021	2.445%	1,005,000
General Obligation Refunding 10/01/01	10/1/2021	2.802%	7,440,000
General Obligation 2012	1/15/2022	1.240%	1,835,000
General Obligation Refunding 3/29/2012	1/15/2022	1.570%	2,280,000
Water Bond	8/15/2022	0.000%	450,000
GOB - School Building Repairs	10/15/2022	2.540%	335,000
GOB - Police/Fire Building Repairs	10/15/2022	2.649%	135,000
GOB - Outdoor Recreational Facilities	10/15/2022	2.504%	205,000
General Obligation Bond	1/15/2024	3.260%	1,185,000
General Obligation Bond	8/15/2024	3.750%	1,410,000
General Obligation Municipal Purpose	8/15/2024	4.213%	1,140,000
GOB - High School Planning	8/15/2030	3.577%	4,310,000
MWPAT	1/15/2033	2.000%	1,535,278
MWPAT CW11-12	1/15/2033	2.000%	2,087,019
GOB - High School Construction	8/15/2034	3.830%	17,350,000
General Obligation Municipal 1/16/14	1/15/2034	2.988%	7,252,000
General Obligation DPW Facility	6/15/2044	3.388%	6,300,000
MWRA 6/26/14	8/15/2023	0.000%	500,000
Total Governmental Activities:			<u>\$ 61,348,124</u>

<u>Business-Type Activities:</u>	<u>Serial</u>	<u>Interest</u>	<u>Amount</u>
<u>Electric Light Enterprise</u>	<u>Maturities</u>	<u>Rate(s) %</u>	<u>Outstanding</u>
	<u>Through</u>		<u>as of</u>
			<u>6/30/14</u>
Electric Substation	1/15/2021	2.480%	\$ 4,338,900
GOB Electric Judgment/Settlement	1/15/2023	3.597%	35,870,000
GOB Electric Judgment/Settlement	8/14/2024	3.095%	14,660,000
GOB - Electric Light Dept. Expansion	10/15/2024	2.612%	3,300,000
GOB - Electric	8/15/2029	4.756%	<u>14,400,000</u>
Total Business-Type Activities:			<u>\$ 72,568,900</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,553,343	\$ 1,954,489	\$ 7,507,832
2016	5,082,395	1,806,284	6,888,679
2017	4,909,858	1,662,196	6,572,054
2018	4,591,605	1,523,689	6,115,294
2019	4,371,819	1,394,008	5,765,827
2020 - 2024	16,473,799	5,104,661	21,578,460
2025 - 2029	9,445,199	3,053,772	12,498,971
2030 - 2034	8,000,106	1,397,254	9,397,360
2035 - 2039	1,870,000	354,450	2,224,450
2040 - 2044	<u>1,050,000</u>	<u>126,000</u>	<u>1,176,000</u>
Total	<u>\$ 61,348,124</u>	<u>\$ 18,376,803</u>	<u>\$ 79,724,927</u>

The general fund has been designated as the sole sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2014.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,510,000	\$ 2,946,006	\$ 9,456,006
2016	6,645,000	2,711,731	9,356,731
2017	6,790,000	2,456,081	9,246,081
2018	6,945,000	2,154,906	9,099,906
2019	7,098,900	1,844,656	8,943,556
2020 - 2024	31,550,000	4,905,326	36,455,326
2025 - 2029	6,130,000	880,175	7,010,175
2030 - 2034	<u>900,000</u>	<u>24,975</u>	<u>924,975</u>
Total	<u>\$ 72,568,900</u>	<u>\$ 17,923,856</u>	<u>\$ 90,492,756</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/13</u>	Additions	Reductions	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 52,279	\$ 14,052	\$ (4,983)	\$ 61,348	\$ (5,553)	\$ 55,795
Other:						
Compensated absences	2,614	40	-	2,654	(133)	2,521
Bond premium	800	-	(73)	727	(73)	654
Landfill closure	320	-	(20)	300	(20)	280
Accrued other post-employment benefits	<u>26,109</u>	<u>4,342</u>	<u>-</u>	<u>30,451</u>	<u>-</u>	<u>30,451</u>
Totals	<u>\$ 82,122</u>	<u>\$ 18,434</u>	<u>\$ (5,076)</u>	<u>\$ 95,480</u>	<u>\$ (5,779)</u>	<u>\$ 89,701</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 78,949	\$ -	\$ (6,380)	\$ 72,569	\$ (6,510)	\$ 66,059
Other:						
Compensated absence	276	44	-	320	(16)	304
Bond premium	2,327	-	(128)	2,199	(127)	2,072
Accrued other post-employment benefits	<u>1,108</u>	<u>204</u>	<u>-</u>	<u>1,312</u>	<u>-</u>	<u>1,312</u>
Totals	<u>\$ 82,660</u>	<u>\$ 248</u>	<u>\$ (6,508)</u>	<u>\$ 76,400</u>	<u>\$ (6,653)</u>	<u>\$ 69,747</u>

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$300,000 reported as landfill postclosure care liability at June 30, 2014 represents the future monitoring costs of the landfill. These costs will be captured annually as part of the operating budget. Actual cost may be higher due to inflation, changes in technology, or changes in regulation.

15. Deferred Inflows of Resources

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

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

	<u>Fund Basis</u>		<u>Fiduciary</u>
	<u>General Fund</u>	<u>Nonmajor</u>	<u>Agency</u>
Unearned revenue	\$ 3,582,350	\$ 164,615	\$ 126,525

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

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

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

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

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

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various

Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

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

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

	General Fund	DPW Facility Major Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 479,033	\$ 479,033
Total Nonexpendable	-	-	479,033	479,033
Restricted				
Capital project funds	-	7,202,465	1,329,821	8,532,286
Special revenue funds	-	-	3,101,492	3,101,492
Expendable permanent funds	-	-	407,428	407,428
Total Restricted	-	7,202,465	4,838,741	12,041,206
Assigned				
Encumbrances				
General government	340,460	-	-	340,460
Public safety	245,245	-	-	245,245
Education	1,878,622	-	-	1,878,622
Public works	51,378	-	-	51,378
Broadband cable	143,889	-	-	143,889
Water and sewer	109,414	-	-	109,414
Health and human services	6,745	-	-	6,745
Culture and recreation	98,863	-	-	98,863
Employee benefits	503,367	-	-	503,367
Reserved for expenditures	1,300,000	-	-	1,300,000
Total Assigned	4,677,983	-	-	4,677,983
Unassigned				
General operating stabilization	2,464,348			2,464,348
General fund	3,913,234		(55,859)	3,857,375
Total Unassigned	6,377,582	-	(55,859)	6,321,723
Total Fund Balances	\$ 11,055,565	\$ 7,202,465	\$ 5,261,915	\$ 23,519,945

18. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 6,377,582
Stabilization fund	(2,464,348)
Tax refund estimate	<u>461,647</u>
Statutory (UMAS) Balance	<u>\$ 4,374,881</u>

19. Commitments and Contingencies

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.

20. 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, 2014, the actuarial valuation date, approximately 759 retirees and 918 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 a variable percentage of stated premiums, depending on the health insurance they participate in. 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.

Annual Required Contribution (ARC)	\$ 8,085,346
Interest on net OPEB obligation	804,338
Adjustment to ARC	<u>(766,036)</u>
Annual OPEB cost	8,123,648
Contributions made	<u>(3,576,951)</u>
Increase in net OPEB obligation	4,546,697
Net OPEB obligation - beginning of year	<u>27,216,557</u>
Net OPEB obligation - end of year	<u>\$ 31,763,254</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 8,123,648	44%	\$ 31,763,254
2013	\$ 7,853,947	46%	\$ 27,216,557
2012	\$ 9,822,686	35%	\$ 22,981,076

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)	\$ 123,311,444
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 123,311,444</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 55,387,067</u>
UAAL as a percentage of covered payroll	<u>223%</u>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included 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%.

21. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees (except teachers and administrators under contract employed by the School Department) of the Town are members of the Norwood Contributory Retirement System (NCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the NCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the NCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The NCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2013:

Retirees and beneficiaries receiving benefits	363
Terminated plan members entitled to but not yet receiving benefits	112
Active plan members	<u>585</u>
Total	<u><u>1,060</u></u>

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Norwood Contributory Retirement System's most recent valuation (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$ 117,667	\$ 144,016	\$ 26,349	81.7%	\$ 28,520	92.4%

The Schedule of Funding Progress following the Notes to the Financial Statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$21,793,409 million was calculated. The actuarial assumptions included 8.5% investment rate of return and a projected salary increase of 4.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.5%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of the unfunded actuarially accrued liability is being amortized over 20 years using an open group method which assumes a 4.5% per year increase in payroll.

E. Teachers

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 Town is not required to contribute.

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

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

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

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

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$10,583,883 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. 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.

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 Norwood Contributory Retirement System's actuarially accrued liability.

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

JUNE 30, 2014

(Unaudited)

(Amounts expressed in thousands)

Employees' Retirement System

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/12	\$ 117,667	\$ 144,016	\$ 26,349	81.7%	\$ 28,520	92.4%
01/01/10	\$ 114,267	\$ 136,061	\$ 21,794	84.0%	\$ 28,437	76.6%
01/01/07	\$ 107,392	\$ 119,745	\$ 12,353	89.7%	\$ 25,566	48.3%
01/01/05	\$ 94,751	\$ 107,756	\$ 13,005	87.9%	\$ 23,713	54.8%
01/01/04	\$ 85,399	\$ 106,026	\$ 20,627	80.5%	\$ 21,566	95.6%
01/01/02	\$ 86,804	\$ 92,332	\$ 5,528	94.0%	\$ 20,777	26.6%
01/01/01	\$ 87,599	\$ 86,111	\$ (1,488)	101.7%	\$ 19,810	-7.5%
01/01/00	\$ 85,512	\$ 81,500	\$ (4,012)	104.9%	\$ 19,087	-21.0%
01/01/99	\$ 77,389	\$ 74,690	\$ (2,699)	103.6%	\$ 16,924	-15.9%
01/01/97	\$ 64,097	\$ 63,025	\$ (1,072)	101.7%	\$ 15,969	-6.7%

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/13	\$ -	\$ 123,311	\$ 123,311	0.0%	\$ 55,387	222.6%
06/30/11	\$ -	\$ 139,668	\$ 139,668	0.0%	\$ 55,240	252.8%
01/01/08	\$ -	\$ 132,031	\$ 132,031	0.0%	\$ 42,589	310.0%

See Independent Auditors' Report.