

**TOWN OF HADLEY, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2014

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Selectboard  
Town of Hadley, Massachusetts

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 Hadley, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

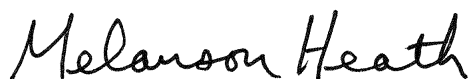
## **Opinions**

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 Hadley, 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.



May 20, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Hadley's 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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

ance 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 sewer 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 information for the sewer 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 \$28,328,506 (i.e., net position), a change of \$(205,794) in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance surplus of \$8,737,555, a change of \$115,810 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,961,314, a change of \$(671,319) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$5,799,700, a change of \$(820,388) in comparison with the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

<u>NET POSITION</u>						
	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>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	\$ 10,835,058	\$ 10,026,075	\$ 1,036,803	\$ 1,075,232	\$ 11,871,861	\$ 11,101,307
Capital assets	<u>26,166,165</u>	<u>26,799,357</u>	<u>2,563,069</u>	<u>2,542,290</u>	<u>28,729,234</u>	<u>29,341,647</u>
Total Assets	37,001,223	36,825,432	3,599,872	3,617,522	40,601,095	40,442,954
Long-term liabilities outstanding	10,233,884	10,465,217	131,148	107,457	10,365,032	10,572,674
Other liabilities	<u>1,759,299</u>	<u>1,164,565</u>	<u>148,258</u>	<u>171,415</u>	<u>1,907,557</u>	<u>1,335,980</u>
Total Liabilities	11,993,183	11,629,782	279,406	278,872	12,272,589	11,908,654
Net position:						
Net investment in capital assets	20,622,779	20,459,351	2,427,069	2,406,290	23,049,848	22,865,641
Restricted	5,339,892	4,618,977	-	-	5,339,892	4,618,977
Unrestricted	<u>(954,631)</u>	<u>117,322</u>	<u>893,397</u>	<u>932,360</u>	<u>(61,234)</u>	<u>1,049,682</u>
Total Net Position	<u>\$ 25,008,040</u>	<u>\$ 25,195,650</u>	<u>\$ 3,320,466</u>	<u>\$ 3,338,650</u>	<u>\$ 28,328,506</u>	<u>\$ 28,534,300</u>

## CHANGES IN NET POSITION

	<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>
Revenues:						
Program revenues:						
Charges for services	\$ 2,529,414	\$ 2,401,930	\$ 767,711	\$ 794,725	\$ 3,297,125	\$ 3,196,655
Operating grants and contributions	4,104,032	3,447,083	-	-	4,104,032	3,447,083
Capital grants and contributions	470,540	639,509	-	-	470,540	639,509
General revenues:						
Property taxes	9,929,879	9,714,351	-	-	9,929,879	9,714,351
Excises	625,186	568,914	-	-	625,186	568,914
Penalties, interest and other taxes	1,130,346	1,092,726	6,763	8,439	1,137,109	1,101,165
Grants and contributions not restricted	726,811	745,610	-	-	726,811	745,610
Investment income	71,268	113,104	4,931	2,105	76,199	115,209
Miscellaneous	64,528	374,082	-	-	64,528	374,082
Total Revenues	19,652,004	19,097,309	779,405	805,269	20,431,409	19,902,578
Expenses:						
General government	1,184,559	1,233,900	-	-	1,184,559	1,233,900
Public safety	2,255,013	1,918,538	-	-	2,255,013	1,918,538
Education	9,046,183	8,644,584	-	-	9,046,183	8,644,584
Public works	2,880,182	2,498,507	-	-	2,880,182	2,498,507
Health and human services	236,071	215,329	-	-	236,071	215,329
Culture and recreation	327,775	260,106	-	-	327,775	260,106
Employee benefits	2,676,876	2,509,878	-	-	2,676,876	2,509,878
Interest	152,572	171,869	-	-	152,572	171,869
Intergovernmental	997,939	956,329	-	-	997,939	956,329
Sewer operations	-	-	797,589	802,792	797,589	802,792
Total Expenses	19,757,170	18,409,040	797,589	802,792	20,554,759	19,211,832
Change in net position before transfers	(105,166)	688,269	(18,184)	2,477	(123,350)	690,746
Transfers in (out)	(82,444)	-	-	-	(82,444)	-
Change in net position	(187,610)	688,269	(18,184)	2,477	(205,794)	690,746
Net position - beginning of year	25,195,650	24,507,381	3,338,650	3,336,173	28,534,300	27,843,554
Net position - end of year	\$ 25,008,040	\$ 25,195,650	\$ 3,320,466	\$ 3,338,650	\$ 28,328,506	\$ 28,534,300

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 \$28,328,506, a change of \$(205,794) from the prior year.

The largest portion of net position, \$23,049,848, 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, \$5,339,892 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(954,631) (governmental) and 893,397 (business-type), may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(187,610). Key elements of this change are as follows:

General Fund Operating Results:

Tax revenue collected in excess of budget	\$ 56,880
State and local revenues over budget	475,442
Budgetary appropriations unspent by departments	195,191
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(892,664)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	(59,803)
Other source/use raised and used in the current year	14
Change in Stabilization funds	(375,951)
Major fund - Water expenditures in excess of revenues	(40,068)
Major fund - Community preservation revenues in excess of expenditures	427,168
Major fund - Capital project transfers in in excess of expenditures and transfers out	40,232
Non-major fund revenues and transfers in in excess of expenditures and transfers out	289,369
Depreciation expense in excess of principal debt service	(468,002)
Capital expenditures funded by non-bond funds	655,198
Change in net OPEB obligation	(647,731)
Changes in accruals and long-term liabilities other than debt	157,115
Total	<u>\$ (187,610)</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$(18,184). Key elements of this change are as follows:

	<u>Sewer</u>
Operating (loss)	\$ (22,510)
Non-operating revenue (expense), net	<u>4,326</u>
Change in net position	<u>\$ (18,184)</u>

#### **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, unreserved 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 \$8,737,555, a change of \$115,810 in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 56,880
State and local revenues over budget	475,442
Budgetary appropriations unspent by departments	195,191
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(892,664)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	(59,803)
Other source/use raised and used in the current year	14
Change in Stabilization funds	(375,951)
Major fund - Water expenditures in excess of revenues	(40,068)
Major fund - Community preservation revenues in excess of expenditures	427,168
Major fund - Capital project transfers in in excess of expenditures and transfers out	40,232
Non-major fund revenues and transfers in in excess of expenditures and transfers out	<u>289,369</u>
Total	<u>\$ 115,810</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 \$2,961,314, while total fund balance was \$3,453,175. 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>2014</u>	<u>2013</u>	<u>Change</u>	% of Total 2014 General Fund Expenditures
Unassigned fund balance <sup>1</sup>	\$ 2,961,314	\$ 3,632,633	\$ (671,319)	19.3%
Total fund balance	3,453,175	4,054,066	(600,891)	22.5%

<sup>1</sup> Includes the Town's stabilization funds

The fund balance of the general fund changed by \$(600,891) during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:

Tax revenue collected in excess of budget	\$ 56,880
State and local revenues over budget	475,442
Budgetary appropriations unspent by departments	195,191
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(892,664)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	(59,803)
Other source/use raised and used in the current year	14
Change in Stabilization funds	<u>(375,951)</u>
Total	<u>\$ (600,891)</u>

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

	<u>06/30/14</u>	<u>06/30/13</u>	<u>Change</u>
Stabilization fund	\$ 2,053,986	\$ 2,110,634	\$ (56,648)
Capital stabilization fund	<u>55,543</u>	<u>374,846</u>	<u>(319,303)</u>
	<u>\$ 2,109,529</u>	<u>\$ 2,485,480</u>	<u>\$ (375,951)</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$893,397. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$137,576. Major reasons for these amendments include:

- \$84,668 for contractual buyout of accrued sick leave.
- \$43,000 transfer out to the unemployment trust fund.
- \$9,908 for insurance assessment.

Of this increase, \$84,668 was funded by a transfer from the capital stabilization fund, \$43,000 was funded through the use of free cash and \$9,908 was funded from overlay surplus.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$28,729,234 (net of accumulated depreciation), a change of \$(612,413) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment and infrastructure.

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

- School and library text book purchases of \$42,882.
- Purchase of public safety vehicles and equipment of \$177,685.
- School vehicle and technology upgrades of \$243,268.
- Road improvements of \$62,135.
- Other capital additions of \$17,534.
- Water department vehicle and equipment of \$111,694.
- Pump stations 1 and 4 upgrades of \$122,684.
- Depreciation expense of \$(1,288,390) for governmental and \$(101,905) for business-type assets.

**Change in credit rating.** During the fiscal year, the Town's credit rating was upgraded by Standard and Poors from AA to AA+.

**Long-term debt.** At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$5,799,700, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Hadley'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:

Ms. Gail Weiss  
Town Accountant  
Town of Hadley  
100 Middle Street  
Hadley, MA 01035

## TOWN OF HADLEY, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 6,996,355	\$ 1,019,923	\$ 8,016,278
Investments	3,183,853	-	3,183,853
Receivables:			
Property taxes	125,587	-	125,587
Excises	46,463	-	46,463
User fees	45,185	16,880	62,065
Intergovernmental	365,983	-	365,983
Noncurrent:			
Receivables:			
Property taxes	71,632	-	71,632
Land and construction in progress	1,035,102	133,684	1,168,786
Capital assets, net of accumulated depreciation	<u>25,131,063</u>	<u>2,429,385</u>	<u>27,560,448</u>
<b>TOTAL ASSETS</b>	<b>37,001,223</b>	<b>3,599,872</b>	<b>40,601,095</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	407,791	10,921	418,712
Accounts payable	73,801	-	73,801
Accrued payroll and withholdings	239,968	1,337	241,305
Accrued interest payable	46,514	-	46,514
Notes payable	975,687	136,000	1,111,687
Other liabilities	15,538	-	15,538
Current portion of long-term liabilities:			
Bonds payable	660,446	-	660,446
Landfill closure	7,800	-	7,800
Noncurrent:			
Bonds payable, net of current portion	5,139,254	-	5,139,254
Landfill closure, net of current portion	117,000	-	117,000
Accrued compensated absences	313,330	34,289	347,619
Net OPEB obligation	<u>3,996,054</u>	<u>96,859</u>	<u>4,092,913</u>
<b>TOTAL LIABILITIES</b>	<b>11,993,183</b>	<b>279,406</b>	<b>12,272,589</b>
<b>NET POSITION</b>			
Net investment in capital assets	20,622,779	2,427,069	23,049,848
Restricted for:			
State and federal grants	4,879,916	-	4,879,916
Permanent funds:			
Nonexpendable	69,080	-	69,080
Expendable	390,896	-	390,896
Unrestricted	<u>(954,631)</u>	<u>893,397</u>	<u>(61,234)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>25,008,040</u></b>	<b>\$ <u>3,320,466</u></b>	<b>\$ <u>28,328,506</u></b>

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

TOWN OF HADLEY, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	Total
		Expenses					
<b>Governmental Activities:</b>							
General government	\$ 1,184,559	\$ 627,004	\$ 277,115	\$ -	\$ (280,440)	\$ -	\$ (280,440)
Public safety	2,255,013	373,984	59,359	15,209	(1,806,461)	-	(1,806,461)
Education	9,046,183	234,923	3,520,426	-	(5,290,834)	-	(5,290,834)
Public works	2,880,182	1,216,152	23,655	455,331	(1,185,044)	-	(1,185,044)
Health and human services	236,071	44,813	167,580	-	(23,678)	-	(23,678)
Culture and recreation	327,775	32,538	55,897	-	(239,340)	-	(239,340)
Employee benefits	2,676,876	-	-	-	(2,676,876)	-	(2,676,876)
Interest	152,572	-	-	-	(152,572)	-	(152,572)
Intergovernmental	997,939	-	-	-	(997,939)	-	(997,939)
Total Governmental Activities	19,757,170	2,529,414	4,104,032	470,540	(12,653,184)	-	(12,653,184)
<b>Business-Type Activities:</b>							
Sewer operations	797,589	767,711	-	-	-	(29,878)	(29,878)
Total Business-Type Activities	797,589	767,711	-	-	-	(29,878)	(29,878)
Total All Activities	\$ 20,554,759	\$ 3,297,125	\$ 4,104,032	\$ 470,540	(12,653,184)	(29,878)	(12,683,062)
<b>General Revenues:</b>							
Property taxes					9,929,879	-	9,929,879
Excises					625,186	-	625,186
Penalties, interest and other taxes					1,130,346	6,763	1,137,109
Grants and contributions not restricted to specific programs					726,811	-	726,811
Investment income					71,268	4,931	76,199
Miscellaneous					64,528	-	64,528
Transfers, net					(82,444)	-	(82,444)
Total general revenues					12,465,574	11,694	12,477,268
Change in Net Position					(187,610)	(18,184)	(205,794)
<b>Net Position:</b>							
Beginning of year					25,195,650	3,338,650	28,534,300
End of year					\$ 25,008,040	\$ 3,320,466	\$ 28,328,506

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

TOWN OF HADLEY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Water Fund</u>	<u>Community Preservation Act Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and short-term investments	\$ 2,320,285	\$ 1,073,259	\$ 664,770	\$ 995,823	\$ 1,942,218	\$ 6,996,355
Investments	1,632,505	61,424	1,000,674	-	489,250	3,183,853
Receivables:						
Property taxes	194,289	-	2,930	-	-	197,219
Excises	46,463	-	-	-	-	46,463
User fees	-	45,185	-	-	-	45,185
Intergovernmental	79,856	-	-	-	286,127	365,983
<b>TOTAL ASSETS</b>	<b>\$ 4,273,398</b>	<b>\$ 1,179,868</b>	<b>\$ 1,668,374</b>	<b>\$ 995,823</b>	<b>\$ 2,717,595</b>	<b>\$ 10,835,058</b>
<b>LIABILITIES</b>						
Warrants payable	\$ 259,926	\$ 22,316	\$ 1,057	\$ 73,709	\$ 50,783	\$ 407,791
Accounts payable	-	-	-	-	73,801	73,801
Accrued payroll and withholdings	238,047	1,856	-	-	65	239,968
Notes payable	-	25,900	-	949,787	-	975,687
Other liabilities	1,641	-	-	-	13,897	15,538
<b>TOTAL LIABILITIES</b>	<b>499,614</b>	<b>50,072</b>	<b>1,057</b>	<b>1,023,496</b>	<b>138,546</b>	<b>1,712,785</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>320,609</b>	<b>45,185</b>	<b>2,930</b>	<b>-</b>	<b>15,994</b>	<b>384,718</b>
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	69,080	69,080
Restricted	-	977,893	-	346,067	2,457,705	3,781,665
Committed	295,917	-	1,664,387	315,116	36,270	2,311,690
Assigned	195,944	106,718	-	-	-	302,662
Unassigned	2,961,314	-	-	(688,856)	-	2,272,458
<b>TOTAL FUND BALANCES</b>	<b>3,453,175</b>	<b>1,084,611</b>	<b>1,664,387</b>	<b>(27,673)</b>	<b>2,563,055</b>	<b>8,737,555</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 4,273,398</b>	<b>\$ 1,179,868</b>	<b>\$ 1,668,374</b>	<b>\$ 995,823</b>	<b>\$ 2,717,595</b>	<b>\$ 10,835,058</b>

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



TOWN OF HADLEY, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

<b>Total Governmental Fund Balances</b>	\$ 8,737,555
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	26,166,165
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	384,718
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(46,514)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(10,233,884)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 25,008,040</u>

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

## TOWN OF HADLEY, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Water Fund</u>	<u>Community Preservation Act Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>						
Property taxes	\$ 9,697,388	\$ -	\$ 221,524	\$ -	\$ -	\$ 9,918,912
Excises	618,319	-	-	-	-	618,319
Penalties, interest and other taxes	1,110,531	19,484	331	-	-	1,130,346
Charges for services	485,945	1,127,757	-	-	639,163	2,252,865
Intergovernmental	3,142,249	-	216,018	-	1,863,260	5,221,527
Licenses and permits	224,772	-	-	-	-	224,772
Fines and forfeitures	55,944	-	-	-	-	55,944
Investment income	41,726	5,042	9,247	-	15,253	71,268
Miscellaneous	3,558	-	450	-	60,520	64,528
Total Revenues	15,380,432	1,152,283	447,570	-	2,578,196	19,558,481
<b>Expenditures:</b>						
Current:						
General government	950,402	-	13,665	30,000	68,420	1,062,487
Public safety	1,864,290	-	-	181,195	238,712	2,284,197
Education	7,282,690	-	-	258,895	1,367,502	8,909,087
Public works	944,353	833,346	-	93,727	463,434	2,334,860
Health and human services	208,545	-	-	-	37,413	245,958
Culture and recreation	253,111	-	6,737	4,008	70,030	333,886
Employee benefits	2,024,997	188,940	-	-	-	2,213,937
Debt service	807,811	170,065	-	-	-	977,876
Intergovernmental	997,939	-	-	-	-	997,939
Total Expenditures	15,334,138	1,192,351	20,402	567,825	2,245,511	19,360,227
Excess (deficiency) of revenues over expenditures	46,294	(40,068)	427,168	(567,825)	332,685	198,254
<b>Other Financing Sources (Uses):</b>						
Transfers in	144,539	-	-	638,598	43,000	826,137
Transfers out	(791,724)	-	-	(30,541)	(86,316)	(908,581)
Total Other Financing Sources (Uses)	(647,185)	-	-	608,057	(43,316)	(82,444)
Change in fund balance	(600,891)	(40,068)	427,168	40,232	289,369	115,810
Fund Equity, at Beginning of Year	4,054,066	1,124,679	1,237,219	(67,905)	2,273,686	8,621,745
Fund Equity, at End of Year	\$ 3,453,175	\$ 1,084,611	\$ 1,664,387	\$ (27,673)	\$ 2,563,055	\$ 8,737,555

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

TOWN OF HADLEY, 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

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 115,810</b>						
<ul style="list-style-type: none"> <li>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> <tr> <td>Capital asset purchases</td><td style="text-align: right;">655,198</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(1,288,390)</td></tr> </table> </li> <li>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;">93,522</div> </li> <li>The issuance of long-term debt (e.g., bonds) 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> <tr> <td>Repayments of debt</td><td style="text-align: right;">820,388</td></tr> </table> </li> <li>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;">4,916</div> </li> <li>Some expenses reported in the statement of activities, such as landfill closure, accrued compensated absences and net OPEB obligation 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;"><u>(589,054)</u></div> </li> </ul>	Capital asset purchases	655,198	Depreciation	(1,288,390)	Repayments of debt	820,388	
Capital asset purchases	655,198						
Depreciation	(1,288,390)						
Repayments of debt	820,388						
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(187,610)</u></b>						

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

TOWN OF HADLEY, 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>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 9,640,508	\$ 9,640,508	\$ 9,640,508	\$ -
Excises	527,538	527,538	618,319	90,781
Penalties, interest and other taxes	975,618	975,618	1,110,531	134,913
Charges for services and licences and permits	639,824	639,824	710,717	70,893
Intergovernmental	1,765,513	1,765,513	1,866,585	101,072
Fines and forfeitures	31,981	31,981	55,944	23,963
Investment income	-	-	11,502	11,502
Miscellaneous	15,006	15,006	3,558	(11,448)
Transfers in	-	84,668	138,434	53,766
Other sources	<u>839,756</u>	<u>892,664</u>	<u>892,664</u>	<u>-</u>
Total Revenues and Other Sources	14,435,744	14,573,320	15,048,762	475,442
<b>Expenditures and Other Uses:</b>				
General government	981,207	981,398	920,578	60,820
Public safety	1,809,337	1,900,069	1,906,296	(6,227)
Education	5,960,000	5,960,000	5,959,218	782
Public works	993,419	993,419	931,867	61,552
Health and human services	221,715	222,585	207,009	15,576
Culture and recreation	250,442	250,441	242,869	7,572
Employee benefits	2,130,633	2,050,973	2,025,084	25,889
Debt service	811,637	811,637	807,811	3,826
Intergovernmental	1,023,340	1,023,340	997,939	25,401
Transfers out	254,000	379,444	379,444	-
Other uses	<u>14</u>	<u>14</u>	<u>14</u>	<u>-</u>
Total Expenditures and Other Uses	<u>14,435,744</u>	<u>14,573,320</u>	<u>14,378,129</u>	<u>195,191</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>670,633</u>	\$ <u>670,633</u>

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

TOWN OF HADLEY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities
	<u>Sewer Fund</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 1,019,923
User fees	<u>16,880</u>
Total current assets	1,036,803
Noncurrent:	
Land and construction in progress	133,684
Capital assets, net of accumulated depreciation	<u>2,429,385</u>
Total noncurrent assets	<u>2,563,069</u>
<b>TOTAL ASSETS</b>	3,599,872
<b>LIABILITIES</b>	
Current:	
Warrants payable	10,921
Accrued payroll	1,337
Notes payable	<u>136,000</u>
Total current liabilities	148,258
Noncurrent:	
Accrued compensated absences	34,289
Net OPEB obligation	<u>96,859</u>
Total noncurrent liabilities	<u>131,148</u>
<b>TOTAL LIABILITIES</b>	279,406
<b>NET POSITION</b>	
Net investment in capital assets	2,427,069
Unrestricted	<u>893,397</u>
<b>TOTAL NET POSITION</b>	<u>\$ 3,320,466</u>

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

TOWN OF HADLEY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities <u>Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ <u>774,474</u>
Total Operating Revenues	774,474
<b>Operating Expenses:</b>	
Salaries and wages	272,892
Operating expenses	398,837
Capital outlay	4,699
Depreciation	101,905
Employee benefits	<u>18,651</u>
Total Operating Expenses	<u>796,984</u>
Operating Income (Loss)	(22,510)
<b>Nonoperating Revenues (Expenses):</b>	
Investment income	4,931
Interest expense	<u>(605)</u>
Total Nonoperating Revenues (Expenses), Net	<u>4,326</u>
Change in Net Position	(18,184)
Net Position at Beginning of Year	<u>3,338,650</u>
Net Position at End of Year	\$ <u><u>3,320,466</u></u>

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

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

	Business-Type Activities <u>Sewer Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 780,115
Payments to vendors and employees	<u>(694,545)</u>
Net Cash Provided By Operating Activities	85,570
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(122,684)
Interest paid	<u>(605)</u>
Net Cash (Used For) Capital and Related Financing Activities	(123,289)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	<u>4,931</u>
Net Cash Provided By Investing Activities	<u>4,931</u>
Net Change in Cash and Short-Term Investments	(32,788)
Cash and Short Term Investments, Beginning of Year	<u>1,052,711</u>
Cash and Short Term Investments, End of Year	\$ <u><u>1,019,923</u></u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income (loss)	\$ (22,510)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	101,905
Changes in assets and liabilities:	
User fees	5,641
Warrants payable and accrued payroll	(23,157)
Accrued compensated absences	6,510
Net OPEB obligation	<u>17,181</u>
Net Cash Provided By Operating Activities	\$ <u><u>85,570</u></u>

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

TOWN OF HADLEY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Agency Funds	OPEB Trust Fund
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 6,452	\$ 634
Investments	<u>120,875</u>	<u>122,735</u>
Total Assets	127,327	123,369
<b><u>LIABILITIES</u></b>		
Warrants payable	327	-
Deposits held in custody	124,750	-
Other liabilities	<u>2,250</u>	<u>-</u>
Total Liabilities	<u>127,327</u>	<u>-</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u>-</u>	\$ <u>123,369</u>

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



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

	OPEB <u>Trust Fund</u>
<b>Additions</b>	
Interest Income	\$ <u>4,806</u>
Net increase before transfers	4,806
Transfer in	<u>82,444</u>
Net increase after transfers	87,250
<b>Net position</b>	
Beginning of year	<u>36,119</u>
End of year	\$ <u><u>123,369</u></u>

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

## Town of Hadley, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

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

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary 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 are 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 *water fund*, which accounts for operations related to providing the Town's water services and supporting infrastructure. Although the Town voted to adopt enterprise fund legislation for water operations in fiscal year 1994, under the criteria established by GASB, it does not qualify as an enterprise fund since it does not fund all of its own debt / depreciation expense. Accordingly, it is included as a governmental fund under the GASB Statement No. 34 reporting model.
- The *community preservation act fund* is used to account for the state and local revenue set-aside for certain designated projects and activities allowable per Massachusetts legislation.
- The *capital project fund* is used to account for various capital projects legally authorized by the Town.

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

The Town reports the following major proprietary fund:

- The *sewer enterprise fund*, which accounts for operation of the Town's wastewater treatment facility and supporting infrastructure.

The *OPEB trust fund* accumulates resources for other post-employment retiree benefits for qualified employees.

#### 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 Town consist of certificates of deposit, corporate bonds, equities, federal agency securities and mutual funds. Investments are carried at market value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 ½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$699.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets 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 \$5,000 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 - 40
Infrastructure	50
Vehicles	5 - 7
Equipment	10

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash or overlay surplus) 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 com-

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

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

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

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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



<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 15,380,432	\$ 15,334,138
Other financing sources/uses (GAAP basis)	<u>144,539</u>	<u>791,724</u>
Subtotal (GAAP basis)	15,524,971	16,125,862
Remove the effect of adding the Stabilization fund to General fund per GASB 54	(36,329)	(412,280)
Adjust tax revenue to accrual basis	(56,880)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(418,433)
Add end of year appropriation carryforwards to expenditures	-	358,630
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,275,664)	(1,275,664)
Recognize use of fund balance as funding source	892,664	-
Other uses raised in the current year	<u>-</u>	<u>14</u>
Budgetary basis	\$ <u>15,048,762</u>	\$ <u>14,378,129</u>

**D. Excess of Expenditures Over Appropriations**

Expenditures exceeding appropriations during the current fiscal year were as follows:

Police salaries and wages	\$38,289
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**E. Deficit Fund Equity**

The following fund had a deficit balance, as of June 30, 2014 which consists of various capital projects accounts:

Capital project fund	\$(688,856)
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This deficit will be eliminated through future bond proceeds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company,

unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The Town manages custodial credit risk by the diversification and choice of depository.

The Town approved an investment policy in April 2009. The policy limits unsecured bank deposits to no more than 5% of an institution’s assets or 10% of the Town’s cash balance.

As of June 30, 2014, \$941,001 of the Town’s bank balance of \$8,091,252 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank’s trust department in the Town’s name. This balance represents a portion of the cash and cash equivalents balance in the Town’s investment accounts.

#### 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, and the investment policy adopted by the Town in April 2009, limits the Town’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town manages credit risk by the diversification and prudent selection of investment instruments and choice of depository.

Presented below is the actual rating as of year-end for each investment of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
			<u>AAA/A1</u>	<u>AA/A2</u>
Certificates of deposit	\$ 2,872,164	\$ 2,872,164	\$ -	\$ -
Corporate bonds	9,983	-	-	9,983
Equities	130,583	130,583	-	-
Federal agency securities	319,281	-	319,281	-
Mutual funds	95,452	95,452	-	-
Total investments	<u>\$ 3,427,463</u>	<u>\$ 3,098,199</u>	<u>\$ 319,281</u>	<u>\$ 9,983</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.

As previously noted, the Town adopted an investment policy in April 2009 that limits unsecured bank deposits to no more than 5% of an institution's assets or 10% of the Town's cash balance. In addition, the policy limits the Treasurer to investing in financial instruments included on a list produced annually by the Commonwealth Division of Banks (commonly referred to as the "Legal List of Investments"). The policy further manages this risk by requiring any amount invested in bank accounts or certificates of deposit to be fully insured by FDIC or collateralized by a third party agreement.

\$305,299 of the Town's investments of \$3,427,463 are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and/or excess SIPC.

### C. Concentration of Credit Risk

The Town places no limit on the amount they may invest in any one issuer. Investment limits were established in the policy adopted in April 2009, which is detailed above. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) greater than 5% of total investments are as follows:

Sallie Mae Bank CDs	\$200,748
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### 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. For the most part, the policy adopted in April 2009, establishes a one year investment term limit for applicable types of investments, such as U.S. Treasury notes and certificates of deposit, with the exception of trust funds which can be invested over longer periods of time.

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

Investment Type	Fair Value	Exempt from Disclosure	Investment Maturities in Years			
			Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 2,872,164	\$ -	\$ 376,043	\$ 1,124,838	\$ 1,228,574	\$ 142,709
Corporate bonds	9,983	-	-	9,983	-	-
Equities	130,583	130,583	-	-	-	-
Federal agency securities	319,281	-	30,384	240,336	48,561	-
Mutual funds	95,452	95,452	-	-	-	-
Total investments	<u>\$ 3,427,463</u>	<u>\$ 226,035</u>	<u>\$ 406,427</u>	<u>\$ 1,375,157</u>	<u>\$ 1,277,135</u>	<u>\$ 142,709</u>

#### **E. Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. While the investment policy adopted in April 2009 does not speak specifically to foreign currency issues, this risk is managed by limiting the Treasurer to investments contained on the "Legal List of Investments".

### **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 in the general fund at June 30, 2014 consist of the following:

Real Estate		
2014	\$ 114,590	
Prior years	<u>5,768</u>	
		120,358
Personal Property		
2014	775	
Prior years	<u>2,069</u>	
		<u>2,844</u>
Subtotal current property taxes		123,202
Tax Liens		67,134
Foreclosures		<u>3,953</u>
Total		<u>\$ 194,289</u>

## 6. Intergovernmental Receivables

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

## 7. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 14,112,862	\$ -	\$ -	\$ 14,112,862
Machinery, equipment, and furnishings	8,978,867	529,987	(80,474)	9,428,380
Infrastructure	<u>20,045,292</u>	<u>-</u>	<u>-</u>	<u>20,045,292</u>
Total capital assets, being depreciated	43,137,021	529,987	(80,474)	43,586,534
Less accumulated depreciation for:				
Buildings and improvements	(6,461,434)	(375,876)	-	(6,837,310)
Machinery, equipment, and furnishings	(4,359,548)	(505,842)	80,474	(4,784,916)
Infrastructure	<u>(6,426,573)</u>	<u>(406,672)</u>	<u>-</u>	<u>(6,833,245)</u>
Total accumulated depreciation	<u>(17,247,555)</u>	<u>(1,288,390)</u>	<u>80,474</u>	<u>(18,455,471)</u>
Total capital assets, being depreciated, net	25,889,466	(758,403)	-	25,131,063
Capital assets, not being depreciated:				
Land	898,641	-	-	898,641
Construction in progress	<u>11,250</u>	<u>125,211</u>	<u>-</u>	<u>136,461</u>
Total capital assets, not being depreciated	<u>909,891</u>	<u>125,211</u>	<u>-</u>	<u>1,035,102</u>
Governmental activities capital assets, net	<u>\$ 26,799,357</u>	<u>\$ (633,192)</u>	<u>\$ -</u>	<u>\$ 26,166,165</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,073,516	\$ -	\$ -	\$ 3,073,516
Machinery, equipment, and furnishings	257,527	-	-	257,527
Infrastructure	<u>1,872,891</u>	<u>-</u>	<u>-</u>	<u>1,872,891</u>
Total capital assets, being depreciated	5,203,934	-	-	5,203,934
Less accumulated depreciation for:				
Buildings and improvements	(1,699,066)	(53,900)	-	(1,752,966)
Machinery, equipment, and furnishings	(96,835)	(10,546)	-	(107,381)
Infrastructure	<u>(876,743)</u>	<u>(37,459)</u>	<u>-</u>	<u>(914,202)</u>
Total accumulated depreciation	<u>(2,672,644)</u>	<u>(101,905)</u>	<u>-</u>	<u>(2,774,549)</u>
Total capital assets, being depreciated, net	2,531,290	(101,905)	-	2,429,385
Capital assets, not being depreciated:				
Land	11,000	-	-	11,000
Construction in progress	<u>-</u>	<u>122,684</u>	<u>-</u>	<u>122,684</u>
Total capital assets, not being depreciated	<u>11,000</u>	<u>122,684</u>	<u>-</u>	<u>133,684</u>
Business-type activities capital assets, net	<u>\$ 2,542,290</u>	<u>\$ 20,779</u>	<u>\$ -</u>	<u>\$ 2,563,069</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 120,780
Public safety	188,124
Education	426,657
Public works	527,898
Culture and recreation	<u>24,931</u>
Total depreciation expense - governmental activities	\$ <u>1,288,390</u>
Business-Type Activities:	
Sewer	\$ <u>101,905</u>
Total depreciation expense - business-type activities	\$ <u>101,905</u>

## 8. Warrants and Accounts Payable

Warrants payable represents 2014 expenditures paid by July 15, 2014 as permitted by law. Accounts payable represent additional 2014 expenditures paid after July 15, 2014.

## 9. Anticipation Notes Payable

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

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2014</u>
Bond anticipation	0.50	04/25/14	11/05/14	\$ <u>1,111,687</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>
Bond anticipation	\$ <u>874,687</u>	\$ <u>1,111,687</u>	\$ <u>(874,687)</u>	\$ <u>1,111,687</u>
Total	\$ <u>874,687</u>	\$ <u>1,111,687</u>	\$ <u>(874,687)</u>	\$ <u>1,111,687</u>

## 10. 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 currently outstanding are as follows:

<u>Governmental Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2014</u>
Municipal purpose of 2009	09/15/19	2.0-3.25	\$ 1,265,000
Municipal purpose refunding of 2009	05/01/20	2.0-3.25	779,999
MWPAT DW-05-19	07/15/26	2.0	<u>3,754,701</u>
Total Governmental Activities Debt			<u>\$ 5,799,700</u>

### B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 660,446	\$ 127,721	\$ 788,167
2016	660,607	112,742	773,349
2017	610,871	97,331	708,202
2018	611,243	81,868	693,111
2019	576,722	66,188	642,910
2020 - 2024	1,724,762	176,093	1,900,855
2025 - 2027	<u>955,049</u>	<u>28,905</u>	<u>983,954</u>
Total	<u>\$ 5,799,700</u>	<u>\$ 690,848</u>	<u>\$ 6,490,548</u>

### C. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2013	Additions	Reductions	Total Balance June 30, 2014	Less Current Portion	Equals Long-Term Portion June 30, 2014
<u>Governmental Activities</u>						
Bonds payable	\$ 6,620,088	\$ -	\$ (820,388)	\$ 5,799,700	\$ (660,446)	\$ 5,139,254
Other:						
Landfill closure	108,800	23,800	(7,800)	124,800	(7,800)	117,000
Accrued compensated absences	388,007	-	(74,677)	313,330	-	313,330
Net OPEB obligation	<u>3,348,322</u>	<u>647,732</u>	<u>-</u>	<u>3,996,054</u>	<u>-</u>	<u>3,996,054</u>
Total Governmental Activities	<u>\$ 10,465,217</u>	<u>\$ 671,532</u>	<u>\$ (902,865)</u>	<u>\$ 10,233,884</u>	<u>\$ (668,246)</u>	<u>\$ 9,565,638</u>
<u>Business-Type Activities</u>						
Other:						
Accrued compensated absences	\$ 27,779	\$ 6,510	\$ -	\$ 34,289	\$ -	\$ 34,289
Net OPEB obligation	<u>79,678</u>	<u>17,181</u>	<u>-</u>	<u>96,859</u>	<u>-</u>	<u>96,859</u>
Total Business-Type Activities	<u>\$ 107,457</u>	<u>\$ 23,691</u>	<u>\$ -</u>	<u>\$ 131,148</u>	<u>\$ -</u>	<u>\$ 131,148</u>

## 11. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$124,800 reported as landfill liability at June 30, 2014 represents the estimated cost of monitoring the landfill for the next 16 years. This amount is based on what it would cost to perform all closure and post-closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## 12. Deferred Inflows of Resources

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

The deferred inflow of resources balance as of June 30, 2014 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred revenues account is equal to the total of all June 30, 2014 receivable balances.

## 13. Interfund Fund Transfers

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



The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 144,539	\$ 791,724
Capital project fund	638,598	30,541
Nonmajor funds:		
Special revenue funds	-	86,316
Trust funds	43,000	-
Subtotal Nonmajor funds	43,000	86,316
<u>Fiduciary Funds:</u>		
OPEB trust fund	82,444	-
Grand Total	\$ <u>908,581</u>	\$ <u>908,581</u>

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

#### **14. Restricted Net Position**

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

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

#### **15. Governmental Funds – Balances**

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

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance

classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

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

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

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

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 remaining balance of capital appropriations for non-lapsing, special article appropriations approved at Town Meeting, the community preservation fund, funds set aside by the Town, and capital project accounts funded by appropriation.

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 and surplus to be used in the subsequent year's budget and fund balance (free cash) voted to be used in the subsequent fiscal year.

Unassigned - Represents amounts that are available to be spent in future periods and deficit fund balances.

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

	General Fund	Water Fund	Community Preservation Act Fund	Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>						
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ -	\$ 69,080	\$ 69,080
Total Nonspendable	-	-	-	-	69,080	69,080
<b>Restricted</b>						
Special revenue funds	-	896,481	-	-	2,066,809	2,963,290
Water stabilization funds	-	81,412	-	-	-	81,412
Expendable permanent funds	-	-	-	-	390,896	390,896
Bonded capital projects	-	-	-	346,067	-	346,067
Total Restricted	-	977,893	-	346,067	2,457,705	3,781,665
<b>Committed</b>						
Special article balances	295,917	-	-	-	-	295,917
Town set-asides	-	-	-	-	36,270	36,270
Community preservation fund	-	-	1,664,387	-	-	1,664,387
Capital projects funded by appropriation	-	-	-	315,116	-	315,116
Total Committed	295,917	-	1,664,387	315,116	36,270	2,311,690
<b>Assigned</b>						
Encumbrances	62,713	36,718	-	-	-	99,431
Reserved for expenditures	133,231	70,000	-	-	-	203,231
Total Assigned	195,944	106,718	-	-	-	302,662
<b>Unassigned</b>						
General fund	851,785	-	-	-	-	851,785
Stabilization fund	2,109,529	-	-	-	-	2,109,529
Deficit fund balances	-	-	-	(688,856)	-	(688,856)
Total Unassigned	2,961,314	-	-	(688,856)	-	2,272,458
Total Fund Balance	\$ 3,453,175	\$ 1,084,611	\$ 1,664,387	\$ (27,673)	\$ 2,563,055	\$ 8,737,555

## 16. Subsequent Events

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

	<u>Amount</u>	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation Bond	\$ 3,493,521	2.73%	10/27/14	05/01/35

## 17. 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.

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

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

## **18. Post-Employment Health Care and Life Insurance Benefits**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of 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 in the following footnote, the Town provides post-employment health care, dental and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2012, the actuarial valuation date, approximately 59 retirees and 168 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

### **B. Benefits Provided**

The Town provides medical, prescription drug, 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 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

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

	Governmental <u>Funds</u>	Sewer <u>Fund</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$ 811,383	\$ 21,502	\$ 832,885
Interest on net OPEB obligation	134,988	3,577	138,565
Adjustment to ARC	<u>(101,449)</u>	<u>(2,688)</u>	<u>(104,137)</u>
Annual OPEB cost	844,922	22,391	867,313
Contributions made	<u>(197,190)</u>	<u>(5,210)</u>	<u>(202,400)</u>
Increase in net OPEB obligation	647,732	17,181	664,913
Net OPEB obligation - beginning of year	<u>3,348,322</u>	<u>79,678</u>	<u>3,428,000</u>
Net OPEB obligation - end of year	<u>\$ 3,996,054</u>	<u>\$ 96,859</u>	<u>\$ 4,092,913</u>

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

Fiscal Year <u>Ended</u>	Annual OPEB <u>Costs</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
2014	\$ 867,313	23%	\$ 4,092,913
2013	\$ 851,171	27%	\$ 3,428,000
2012	\$ 828,723	22%	\$ 2,865,033
2011	\$ 799,639	21%	\$ 2,218,974
2010	\$ 912,060	15%	\$ 1,589,327

The Town's net OPEB obligation as of June 30, 2014 is recorded as a long-term liability in both the governmental and business-type activities.

*E. Funded Status and Funding Progress*

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

Actuarial accrued liability (AAL)	\$ 7,663,521
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>7,663,521</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>6,499,847</u>
UAAL as a percentage of covered payroll	<u>117.9%</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.

In May 2011, the Town established an OPEB Trust Fund under MGL Chapter 32B, Section 20. The balance in the trust fund was \$123,369 as of June 30, 2014.

*F. Actuarial Methods and Assumptions*

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

In the July 1, 2012 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included

a 4% investment rate of return, an initial annual healthcare cost trend rate of 6% which decreases to a 5% long-term rate for all healthcare benefits after a year and compensation increases of 3%. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

## 19. **Pension Plan**

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

### A. Plan Description

The Town contributes to the Hampshire County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Hampshire County Retirement System, 99 Industrial Drive, Northampton, MA 01060-2326.

### B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013 and 2012 were \$744,184, \$705,272, and \$648,732, respectively, which were equal to its annual required contribution for each of these years.

### C. 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 participants 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, must pay an additional 2% of salary in excess of \$30,000. The Town's current year covered payroll for teachers was not available.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$1,275,664 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **20. Risk Management**

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

## **21. Implementation of New GASB Standard**

The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Hampshire County Retirement System's actuarially accrued liability.



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

June 30, 2014

(Unaudited)

(Amounts Expressed in Thousands)

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/12	-	\$ 7,664	\$ 7,664	0.0%	\$ 6,500	117.9%
07/01/10	-	\$ 6,789	\$ 6,789	0.0%	\$ 5,968	113.8%
07/01/08	-	\$ 7,218	\$ 7,218	0.0%	\$ 6,009	120.1%

**HAMPSHIRE COUNTY RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

(Amounts Expressed in Thousands)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/14	\$ 235,618	\$ 416,553	\$ 180,935	56.6%	\$ 73,422	246.4%
01/01/12	\$ 204,116	\$ 367,511	\$ 163,395	55.5%	\$ 68,575	238.3%
01/01/10	\$ 179,861	\$ 312,878	\$ 133,017	57.5%	\$ 68,276	194.8%
01/01/08	\$ 163,497	\$ 257,885	\$ 94,388	63.4%	\$ 68,108	138.6%

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

Plan Year End	System Wide			Town of Hadley	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 16,366	\$ 16,366	100%	\$ 744	4.5%
12/31/12	\$ 15,154	\$ 15,154	100%	\$ 705	4.7%
12/31/11	\$ 14,201	\$ 14,201	100%	\$ 649	4.6%
12/31/10	\$ 13,311	\$ 13,311	100%	\$ 585	4.4%

See Independent Auditor's Report.