

**TOWN OF HANOVER, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2014**

**Town of Hanover, Massachusetts**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	12
Statement of Activities	13
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
<b>Proprietary Funds:</b>	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	20
Statement of Cash Flows	21
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
<b>Notes to Financial Statements</b>	24
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Funding Progress	48

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Hanover, 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 Hanover, 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 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 Hanover, 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 March 13, 2015 on our consideration of the Town of Hanover, Massachusetts' 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*

March 13, 2015

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

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

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

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

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

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

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

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

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

**Proprietary funds.** Proprietary funds are maintained as follows:

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

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

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$61,576,183 (i.e., net position), a change of \$(2,409,348) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,912,852, a change of \$(1,834,612) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,961,632, a change of \$198,647 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$44,124,340, a change of \$(3,890,872) in comparison to the prior year.

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

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 34,067	\$ 31,907	\$ 3,020	\$ 3,029	\$ 37,087	\$ 34,936
Capital assets	<u>98,634</u>	<u>97,682</u>	<u>10,117</u>	<u>10,486</u>	<u>108,751</u>	<u>108,168</u>
Total assets and deferred outflows	132,701	129,589	13,137	13,515	145,838	143,104
Current liabilities	20,143	14,261	709	644	20,852	14,905
Noncurrent liabilities	58,764	59,195	4,621	4,980	63,385	64,175
Deferred inflows	<u>25</u>	<u>39</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>39</u>
Total liabilities	78,932	73,495	5,330	5,624	84,262	79,119
Net position:						
Net investment in capital assets	50,063	47,943	5,955	5,882	56,018	53,825
Restricted	7,873	8,065	-	-	7,873	8,065
Unrestricted	<u>(4,167)</u>	<u>86</u>	<u>1,852</u>	<u>2,009</u>	<u>(2,315)</u>	<u>2,095</u>
Total net position	<u>\$ 53,769</u>	<u>\$ 56,094</u>	<u>\$ 7,807</u>	<u>\$ 7,891</u>	<u>\$ 61,576</u>	<u>\$ 63,985</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	\$ 4,135	\$ 4,252	\$ 3,490	\$ 3,356	\$ 7,625	\$ 7,608
Operating grants and contributions	14,096	14,106	-	-	14,096	14,106
Capital grants and contributions	542	252	-	-	542	252
General revenues:						
Property taxes	37,416	36,569	-	-	37,416	36,569
Excises	2,241	2,090	-	-	2,241	2,090
Penalties and interest on taxes	528	212	-	-	528	212
Grants and contributions not restricted to specific programs	2,228	1,997	2	2	2,230	1,999
Investment income	184	105	-	-	184	105
Other	502	436	-	-	502	436
Total revenues	<u>61,872</u>	<u>60,019</u>	<u>3,492</u>	<u>3,358</u>	<u>65,364</u>	<u>63,377</u>
Expenses:						
General government	2,922	3,006	-	-	2,922	3,006
Public safety	7,105	6,720	-	-	7,105	6,720
Education	37,302	34,338	-	-	37,302	34,338
Public works	3,660	3,376	-	-	3,660	3,376
Human services	667	594	-	-	667	594
Culture and recreation	963	925	-	-	963	925
Employee benefits	9,425	9,555	-	-	9,425	9,555
Interest on long-term debt	1,778	1,716	-	-	1,778	1,716
Intergovernmental	548	529	-	-	548	529
Miscellaneous	186	17	-	-	186	17
Water	-	-	3,217	2,812	3,217	2,812
Total expenses	<u>64,556</u>	<u>60,776</u>	<u>3,217</u>	<u>2,812</u>	<u>67,773</u>	<u>63,588</u>
Change in net position before transfers	(2,684)	(757)	275	546	(2,409)	(211)
Transfers in (out)	<u>359</u>	<u>276</u>	<u>(359)</u>	<u>(276)</u>	<u>-</u>	<u>-</u>
Change in net position	(2,325)	(481)	(84)	270	(2,409)	(211)
Net position - beginning of year	<u>56,094</u>	<u>56,575</u>	<u>7,891</u>	<u>7,621</u>	<u>63,985</u>	<u>64,196</u>
Net position - end of year	<u>\$ 53,769</u>	<u>\$ 56,094</u>	<u>\$ 7,807</u>	<u>\$ 7,891</u>	<u>\$ 61,576</u>	<u>\$ 63,985</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 \$61,576,183, a change of \$(2,409,348) from the prior year.

The largest portion of net position \$56,017,936 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 \$7,873,092 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(2,314,845) 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 \$(2,325,520). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (381,721)
Nonmajor funds - accrual basis	1,120,805
Principal debt service in excess of depreciation expense	100,302
MSBA receipts	813,301
Change in accrued other post-employment benefits	(3,276,886)
Other	<u>(701,321)</u>
Total	<u>\$ (2,325,520)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(83,828) from water operations.

Water operations	\$ <u>(83,828)</u>
Total	<u>\$ (83,828)</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, 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 \$9,912,852, a change of \$(1,834,612) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (381,721)
High school capital project operations	(35,760)
MSBA receipts	813,302
Road reconstruction fund expenditures over revenue	(2,073,860)
Nonmajor funds expenditures over revenue	<u>(156,573)</u>
Total	<u>\$ (1,834,612)</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 \$5,961,632, while total fund balance was \$10,244,222. 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	\$ 5,961,632	\$ 5,762,985	\$ 198,647	10%
Total fund balance	\$ 10,244,222	\$ 10,625,943	\$ (381,721)	18%

The total fund balance of the general fund changed by \$(381,721) during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 1,031,348
Appropriation turnbacks by departments	760,119
Excess property tax collections	52,091
Prior year encumbrances to be spent in the current year over current year encumbrances to be spent in the subsequent year	(687,395)
Use of free cash as a funding source	(1,803,126)
Use of overlay surplus as a funding source	(80,000)
Change in stabilization	371,457
Other	<u>(26,215)</u>
Total	<u>\$ (381,721)</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 1,909,462	\$ 1,885,247	\$ 24,215
OPEB stabilization	<u>604,680</u>	<u>257,438</u>	<u>347,242</u>
Total	<u>\$ 2,514,142</u>	<u>\$ 2,142,685</u>	<u>\$ 371,457</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,852,484, a change of \$(156,322) 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**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$337,000. Major reasons for these amendments include:

- \$300,000 for Snow and ice appropriations
- \$17,000 for ambulance appropriations.
- \$20,000 transfer to Forge pond park revolving fund.

These supplemental appropriations were funded by \$320,000 from free cash and \$17,000 transferred from other funds.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$108,751,450 (net of accumulated depreciation), a change of \$582,893 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:

- \$2,150,893 increase in infrastructure relating to various road improvements

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$44,124,340, 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 Financial Statements.

## **REQUESTS FOR INFORMATION**

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

Office of Finance Director  
Town of Hanover, Massachusetts  
550 Hanover Street  
Hanover, MA 02339

TOWN OF HANOVER, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 14,555,672	\$ 1,650,656	\$ 16,206,328
Investments	11,201,829	-	11,201,829
Receivables, net of allowance for uncollectibles:			
Property taxes	738,478	-	738,478
Excises	127,698	-	127,698
User fees	-	1,369,821	1,369,821
Departmental and other	370,231	-	370,231
Intergovernmental	461,695	-	461,695
Other assets	171,866	-	171,866
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	200,386	-	200,386
Intergovernmental	6,238,396	-	6,238,396
Capital Assets:			
Land and construction in progress	9,881,453	977,779	10,859,232
Other assets, net of accumulated depreciation	<u>88,753,459</u>	<u>9,138,759</u>	<u>97,892,218</u>
<b>TOTAL ASSETS</b>	<b>132,701,163</b>	<b>13,137,015</b>	<b>145,838,178</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	1,953,747	160,877	2,114,624
Accrued liabilities	303,732	17,494	321,226
Tax refunds payable	168,012	-	168,012
Notes payable	13,585,000	-	13,585,000
Other current liabilities	462,223	-	462,223
Current portion of long-term liabilities:			
Bonds payable	3,400,868	525,000	3,925,868
Compensated absence	167,912	5,934	173,846
Bond premium	100,914	-	100,914
Noncurrent:			
Bonds payable, net of current portion	36,593,472	3,605,000	40,198,472
Compensated absence	3,190,329	112,743	3,303,072
Bond premium	1,407,443	-	1,407,443
Accrued other post-employment benefits	17,574,274	902,516	18,476,790
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>24,505</u>	<u>-</u>	<u>24,505</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>78,932,431</b>	<b>5,329,564</b>	<b>84,261,995</b>
<b>NET POSITION</b>			
Net investment in capital assets	50,062,969	5,954,967	56,017,936
Restricted for:			
Grants and other statutory restrictions	6,100,656	-	6,100,656
Permanent funds:			
Nonexpendable	166,460	-	166,460
Expendable	1,605,976	-	1,605,976
Unrestricted	<u>(4,167,329)</u>	<u>1,852,484</u>	<u>(2,314,845)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 53,768,732</u>	<u>\$ 7,807,451</u>	<u>\$ 61,576,183</u>

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

TOWN OF HANOVER, 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>
<b>Governmental Activities:</b>							
General government	\$ 2,921,703	\$ 471,474	\$ 48,480	\$ 521,682	\$ (1,880,067)	\$ -	\$ (1,880,067)
Public safety	7,105,083	1,267,408	16,816	-	(5,820,859)	-	(5,820,859)
Education	37,302,027	1,870,307	13,859,695	20,530	(21,551,495)	-	(21,551,495)
Public works	3,659,804	187,670	-	-	(3,472,134)	-	(3,472,134)
Health and human services	667,466	95,834	89,236	-	(482,396)	-	(482,396)
Culture and recreation	962,878	242,551	81,221	-	(639,106)	-	(639,106)
Employee benefits	9,425,428	-	-	-	(9,425,428)	-	(9,425,428)
Interest	1,778,414	-	-	-	(1,778,414)	-	(1,778,414)
Intergovernmental	547,609	-	-	-	(547,609)	-	(547,609)
Miscellaneous	185,590	-	-	-	(185,590)	-	(185,590)
Total Governmental Activities	64,556,002	4,135,244	14,095,448	542,212	(45,783,098)	-	(45,783,098)
<b>Business-Type Activities:</b>							
Water services	3,216,970	3,489,710	-	-	-	272,740	272,740
Total Business-Type Activities	3,216,970	3,489,710	-	-	-	272,740	272,740
Total	\$ 67,772,972	\$ 7,624,954	\$ 14,095,448	\$ 542,212	(45,783,098)	272,740	(45,510,358)
<b>General Revenues and Transfers:</b>							
Property taxes					37,416,323	-	37,416,323
Excises					2,240,400	-	2,240,400
Penalties, interest and other taxes					528,270	-	528,270
Grants and contributions not restricted to specific programs					2,228,177	2,171	2,230,348
Investment income					183,861	-	183,861
Miscellaneous					501,808	-	501,808
Transfers, net					358,739	(358,739)	-
Total general revenues and transfers					43,457,578	(356,568)	43,101,010
Change in Net Position					(2,325,520)	(83,828)	(2,409,348)
<b>Net Position:</b>							
Beginning of year					56,094,252	7,891,279	63,985,531
End of year					\$ 53,768,732	\$ 7,807,451	\$ 61,576,183

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

TOWN OF HANOVER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>Total General</u>	<u>High School Capital Project Fund</u>	<u>Road Reconstruction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 1,464,050	\$ 1,565,310	\$ 2,874,050	\$ 8,652,262	\$ 14,555,672
Investments	10,571,073	-	-	630,756	11,201,829
Receivables:					
Property taxes	1,159,081	-	-	-	1,159,081
Excises	222,579	-	-	827	223,406
Departmental and other	-	-	-	1,089,658	1,089,658
Due from other governments	-	376,700	-	84,995	461,695
Other assets	-	-	-	171,866	171,866
<b>TOTAL ASSETS</b>	<b>\$ <u>13,416,783</u></b>	<b>\$ <u>1,942,010</u></b>	<b>\$ <u>2,874,050</u></b>	<b>\$ <u>10,630,364</u></b>	<b>\$ <u>28,863,207</u></b>
<b>LIABILITIES</b>					
Warrants payable	\$ 1,320,003	\$ -	\$ 256,752	\$ 376,991	\$ 1,953,746
Tax refunds payable	168,012	-	-	-	168,012
Notes payable	-	8,500,000	4,785,000	300,000	13,585,000
Other liabilities	<u>462,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,225</u>
<b>TOTAL LIABILITIES</b>	<b>1,950,240</b>	<b>8,500,000</b>	<b>5,041,752</b>	<b>676,991</b>	<b>16,168,983</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>1,222,321</b>	<b>376,700</b>	<b>-</b>	<b>1,182,351</b>	<b>2,781,372</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	166,460	166,460
Restricted	1,012,883	-	-	6,400,726	7,413,609
Committed	1,644,146	-	-	2,420,105	4,064,251
Assigned	1,625,561	-	-	-	1,625,561
Unassigned	<u>5,961,632</u>	<u>(6,934,690)</u>	<u>(2,167,702)</u>	<u>(216,269)</u>	<u>(3,357,029)</u>
<b>TOTAL FUND BALANCES</b>	<b><u>10,244,222</u></b>	<b><u>(6,934,690)</u></b>	<b><u>(2,167,702)</u></b>	<b><u>8,771,022</u></b>	<b><u>9,912,852</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ <u>13,416,783</u></b>	<b>\$ <u>1,942,010</u></b>	<b>\$ <u>2,874,050</u></b>	<b>\$ <u>10,630,364</u></b>	<b>\$ <u>28,863,207</u></b>

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

TOWN OF HANOVER, 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>	\$ 9,912,852
<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>	98,634,912
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,721,516
<ul style="list-style-type: none"><li>• Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	6,238,396
<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>	(303,732)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, compensated absences, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(62,435,212)</u>
<b>Net position of governmental activities</b>	<u>\$ 53,768,732</u>

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

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

	Total General <u>Fund</u>	High School Capital Project <u>Fund</u>	Road Reconstruction <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 36,546,943	\$ -	\$ -	\$ 835,860	\$ 37,382,803
Excises	2,332,894	-	-	49,744	2,382,638
Penalties, interest, and other taxes	528,070	-	-	200	528,270
Charges for services	355,789	-	-	3,169,444	3,525,233
Licenses and permits	428,227	-	-	-	428,227
Fines and forfeitures	105,400	-	-	-	105,400
Intergovernmental	15,452,085	813,302	-	1,906,237	18,171,624
Investment income	78,104	-	-	105,757	183,861
Miscellaneous	<u>178,381</u>	<u>-</u>	<u>-</u>	<u>698,995</u>	<u>877,376</u>
Total Revenues	56,005,893	813,302	-	6,766,237	63,585,432
<b>Expenditures:</b>					
Current:					
General government	2,228,294	-	-	728,823	2,957,117
Public safety	6,944,939	-	-	157,711	7,102,650
Education	32,226,667	35,760	-	3,595,055	35,857,482
Public works	3,340,614	-	2,073,860	264,086	5,678,560
Health and human services	474,588	-	-	211,030	685,618
Culture and recreation	586,009	-	-	920,022	1,506,031
Employee benefits	6,148,562	-	-	-	6,148,562
Miscellaneous	-	-	-	185,590	185,590
Debt service	5,109,564	-	-	-	5,109,564
Intergovernmental	<u>547,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>547,609</u>
Total Expenditures	<u>57,606,846</u>	<u>35,760</u>	<u>2,073,860</u>	<u>6,062,317</u>	<u>65,778,783</u>
Excess (deficiency) of revenues over expenditures	(1,600,953)	777,542	(2,073,860)	703,920	(2,193,351)
<b>Other Financing Sources (Uses):</b>					
Transfers in	1,645,772	-	-	536,540	2,182,312
Transfers out	<u>(426,540)</u>	<u>-</u>	<u>-</u>	<u>(1,397,033)</u>	<u>(1,823,573)</u>
Total Other Financing Sources (Uses)	<u>1,219,232</u>	<u>-</u>	<u>-</u>	<u>(860,493)</u>	<u>358,739</u>
Change in fund balance	(381,721)	777,542	(2,073,860)	(156,573)	(1,834,612)
Fund Equity, at Beginning of Year, as restated	<u>10,625,943</u>	<u>(7,712,232)</u>	<u>(93,842)</u>	<u>8,927,595</u>	<u>11,747,464</u>
Fund Equity, at End of Year	<u>\$ 10,244,222</u>	<u>\$ (6,934,690)</u>	<u>\$ (2,167,702)</u>	<u>\$ 8,771,022</u>	<u>\$ 9,912,852</u>

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

TOWN OF HANOVER, 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>\$ (1,834,612)</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 style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="text-align: right;">4,213,327</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,260,570)</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 (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <span style="float: right;">(845,635)</span></li> <li>• Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <span style="float: right;">(868,052)</span></li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">3,360,872</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">102,060</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. <span style="float: right;">(131,783)</span></li> <li>• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="margin-left: 40px; width: 100%;"> <tr> <td style="width: 80%;">Compensated absences</td> <td style="text-align: right;">215,739</td> </tr> <tr> <td>Net OPEB obligation</td> <td style="text-align: right;"><u>(3,276,866)</u></td> </tr> </table> </li> </ul>	Capital outlay purchases	4,213,327	Depreciation	(3,260,570)	Repayments of debt	3,360,872	Amortization of bond premium	102,060	Compensated absences	215,739	Net OPEB obligation	<u>(3,276,866)</u>	
Capital outlay purchases	4,213,327												
Depreciation	(3,260,570)												
Repayments of debt	3,360,872												
Amortization of bond premium	102,060												
Compensated absences	215,739												
Net OPEB obligation	<u>(3,276,866)</u>												
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ (2,325,520)</u></u></b>												

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

TOWN OF HANOVER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u> )	Variance with Final Budget Positive ( <u>Negative</u> )
<b>Revenues and other sources:</b>				
Property taxes	\$ 36,494,852	\$ 36,494,852	\$ 36,494,852	\$ -
Excises	1,576,000	1,576,000	2,332,894	756,894
Penalties, interest, and other taxes	157,500	157,500	212,281	54,781
Charges for services	395,400	395,400	355,789	(39,611)
Licenses and permits	348,500	348,500	428,227	79,727
Fines and forfeitures	62,000	62,000	105,400	43,400
Intergovernmental	9,442,096	9,442,096	9,445,865	3,769
Investment income	35,000	35,000	35,014	14
Other revenues	59,644	59,644	192,018	132,374
Other financing sources:				
Transfers in	1,628,772	1,645,772	1,645,772	-
Use of overlay surplus	80,000	80,000	80,000	-
Use of fund balance	<u>1,483,126</u>	<u>1,803,126</u>	<u>1,803,126</u>	<u>-</u>
Total Revenues	51,762,890	52,099,890	53,131,238	1,031,348
<b>Expenditures and other uses:</b>				
Current:				
General government	5,097,920	5,097,920	4,947,787	150,133
Public safety	6,707,872	6,724,872	6,528,809	196,063
Education	23,526,760	23,526,760	23,522,875	3,885
Public works	3,101,034	3,401,034	3,274,522	126,512
Health and human services	420,117	420,117	405,905	14,212
Culture and recreation	514,942	514,942	484,639	30,303
Employee benefits	6,281,212	6,281,212	6,153,061	128,151
Debt service	5,199,087	5,199,087	5,109,564	89,523
Intergovernmental	568,946	568,946	547,609	21,337
Other financing uses:				
Transfers out	<u>345,000</u>	<u>365,000</u>	<u>365,000</u>	<u>-</u>
Total Expenditures	<u>51,762,890</u>	<u>52,099,890</u>	<u>51,339,771</u>	<u>760,119</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,791,467</u>	\$ <u>1,791,467</u>

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

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds
	Water Fund
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 1,650,656
User fees, net of allowance for uncollectibles	<u>1,369,821</u>
Total current assets	3,020,477
Noncurrent:	
Capital Assets:	
Land and construction in progress	977,779
Other assets, net of accumulated depreciation	<u>9,138,759</u>
Total noncurrent assets	<u>10,116,538</u>
<b>TOTAL ASSETS</b>	<b>13,137,015</b>
<b>LIABILITIES</b>	
Current:	
Warrants payable	160,877
Accrued liabilities	17,494
Current portion of long-term liabilities:	
Bonds payable	525,000
Compensated absence	<u>5,934</u>
Total current liabilities	709,305
Noncurrent:	
Bonds payable, net of current portion	3,605,000
Compensated absence, net of current portion	112,743
Net OPEB obligation	<u>902,516</u>
Total noncurrent liabilities	<u>4,620,259</u>
<b>TOTAL LIABILITIES</b>	<b>5,329,564</b>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	5,954,967
Unrestricted	<u>1,852,484</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>7,807,451</u></b>

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

TOWN OF HANOVER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities <u>Enterprise Funds</u>
	Water <u>Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 3,428,290
Other	<u>59,778</u>
Total Operating Revenues	3,488,068
<b>Operating Expenses:</b>	
Operating expenses	2,398,482
Depreciation	480,667
Employee benefits	165,015
Other	<u>(22,961)</u>
Total Operating Expenses	<u>3,021,203</u>
Operating Income (Loss)	466,865
<b>Nonoperating Revenues (Expenses):</b>	
Intergovernmental revenue	2,171
Investment income	1,642
Interest expense	<u>(195,767)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(191,954)</u>
Income (Loss) Before Transfers	274,911
<b>Transfers:</b>	
Transfers out	<u>(358,739)</u>
Change in Net Position	(83,828)
Net Position at Beginning of Year	<u>7,891,279</u>
Net Position at End of Year	<u><u>\$ 7,807,451</u></u>

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

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

	Business-Type Activities <u>Enterprise Funds</u>
	<u>Water Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 3,385,341
Payments to vendors and employees	<u>(2,304,602)</u>
Net Cash Provided By Operating Activities	1,080,739
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>	
Transfers out	<u>(358,739)</u>
Net Cash (Used For) Noncapital Financing Activities	(358,739)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(110,803)
Principal payments on bonds and notes	(530,000)
Interest expense	(195,767)
Intergovernmental subsidy	<u>2,171</u>
Net Cash (Used For) Capital and Related Financing Activities	(834,399)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	<u>1,642</u>
Net Cash Provided By Investing Activities	<u>1,642</u>
Net Change in Cash and Short-Term Investments	(110,757)
Cash and Short-Term Investments, Beginning of Year	<u>1,761,413</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,650,656</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income	\$ 466,865
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	480,667
Changes in assets and liabilities:	
User fees	(102,727)
Warrants and accounts payable	67,376
Accrued liabilities	3,543
Compensated absences	(7,452)
Accrued other post-employment	<u>172,467</u>
Net Cash Provided By Operating Activities	<u>\$ 1,080,739</u>

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

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

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>145,349</u>	\$ <u>866,873</u>
Total Assets	145,349	866,873
 <b><u>LIABILITIES AND NET POSITION</u></b>		
Warrants payable	-	31,374
Escrow deposits	<u>-</u>	<u>835,499</u>
Total Liabilities	<u>-</u>	<u>866,873</u>
 <b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u><u>145,349</u></u>	\$ <u><u>-</u></u>

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

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

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ <u>10,000</u>
Total additions	10,000
 <b>Deductions:</b>	
Other	<u>3,125</u>
Total deductions	<u>3,125</u>
Net increase (decrease)	6,875
 <b>Net position:</b>	
Beginning of year	<u>138,474</u>
End of year	<u>\$ 145,349</u>

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

# TOWN OF HANOVER, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

##### Government-wide Financial Statements

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

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

##### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental

funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The High School Construction Fund reports activities related to the construction of a new high school whose costs are funded in part by

the Massachusetts School Building Authority and through long-term debt.

- The Road Reconstruction Fund accounts for activities relating to the reconstruction of Town roads.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Enterprise Fund

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

#### D. Cash and Short-Term Investments

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$1,018,561.

*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 \$100,000 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	40
Infrastructure	40 - 50
Vehicles	5 - 15
Office equipment	5 - 10
Computer equipment	5 - 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, 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 Advisory 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 Advisory 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 appropriations as voted. Certain items may exceed the department budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

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

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

### B. Budgetary Basis

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

### C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 56,005,893	\$ 57,606,846
Other financing sources/uses (GAAP basis)	<u>1,645,772</u>	<u>426,540</u>
Subtotal (GAAP Basis)	57,651,665	58,033,386
Adjust tax revenue to accrual basis	(52,091)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,818,686)
Add end-of-year appropriation carryforwards from expenditures	-	1,131,291
To record use of overlay surplus	80,000	-
To record use of free cash	1,803,126	-
To remove unbudgeted stabilization fund	(371,456)	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(6,006,220)	(6,006,220)
Other timing issues	<u>26,214</u>	<u>-</u>
Budgetary basis	<u>\$ 53,131,238</u>	<u>\$ 51,339,771</u>

**D. Deficit Fund Equity**

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

ECC FY13 State 911 Training	\$ (7,768)
FY14 911 EMD	(17,449)
FY14 ECC Supp Incentive	(37,154)
Summer recreation programs	(76,510)
Circuit Breaker	(354)
High school capital project	(6,934,690)
Road reconstruction fund	(2,167,702)
Chapter 90	<u>(77,033)</u>
	<u>\$ (9,318,661)</u>

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

### 3. Cash and Short-Term Investments

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

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

As of June 30, 2014, \$20,270 of the Town's bank balance of \$17,460,648 was exposed to custodial credit risk as uninsured or uncollateralized.

### 4. Investments

#### A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AA+</u>	<u>AA</u>	<u>BBB+</u>
U.S. Treasury notes	\$ 69	N/A	\$ -	\$ 69	\$ -	\$ -
Certificates of deposits	8,453		-	8,453	-	-
Corporate bonds	282		-	156	39	87
Mutual funds	1,917	N/A	1,917	-	-	-
Federal agency securities	481		-	481	-	-
<b>Total investments</b>	<b>\$ 11,202</b>		<b>\$ 1,917</b>	<b>\$ 9,159</b>	<b>\$ 39</b>	<b>\$ 87</b>

**B. Custodial Credit Risk**

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

The Town's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town's name.

**C. Concentration of Credit Risk**

The Town does not have an investment in one issuer greater than 5% of total investments.

**D. Interest Rate Risk**

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>Less Than 1</u>	<u>1-5</u>
U.S. Treasury notes	\$ 69	\$ -	\$ 69
Certificates of deposit	8,453	5,634	2,819
Corporate bonds	282	-	282
Federal agency securities	481	-	481
Total	<u>\$ 9,285</u>	<u>\$ 5,634</u>	<u>\$ 3,651</u>

**E. Foreign Currency Risk**

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

**5. Taxes Receivable**

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

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

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

Real Estate		
2014	\$ 484	
2013	186	
2012	53	
2011	20	
2010	11	
2009	4	
2008	4	
Prior	<u>3</u>	
		765
Personal Property		
2014	17	
2013	5	
2012	5	
2011	5	
2010	12	
2009	1	
2008	<u>1</u>	
		46
Tax Liens		223
Deferred Taxes		<u>125</u>
Total		<u>\$ 1,159</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	\$ 220	\$ -
Excises	\$ 96	\$ -
Utilities	\$ -	\$ 69
Other	\$ 719	\$ -

## 7. Intergovernmental Receivables

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

## 8. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 43,511	\$ 56,687	\$ -	\$ 100,198
Machinery, equipment, and furnishings	3,265	165	(101)	3,329
Vehicles	6,356	482	-	6,838
Infrastructure	<u>24,744</u>	<u>2,151</u>	<u>-</u>	<u>26,895</u>
Total capital assets, being depreciated	77,876	59,485	(101)	137,260
Less accumulated depreciation for:				
Buildings and improvements	(22,505)	(2,120)	-	(24,625)
Machinery, equipment, and furnishings	(1,916)	(195)	101	(2,010)
Vehicles	(5,529)	(419)	-	(5,948)
Infrastructure	<u>(15,397)</u>	<u>(527)</u>	<u>-</u>	<u>(15,924)</u>
Total accumulated depreciation	<u>(45,347)</u>	<u>(3,261)</u>	<u>101</u>	<u>(48,507)</u>
Total capital assets, being depreciated, net	32,529	56,224	-	88,753
Capital assets, not being depreciated:				
Land	9,590	291	-	9,881
Construction in progress	<u>55,563</u>	<u>945</u>	<u>(56,508)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>65,153</u>	<u>1,236</u>	<u>(56,508)</u>	<u>9,881</u>
Governmental activities capital assets, net	<u>\$ 97,682</u>	<u>\$ 57,460</u>	<u>\$ (56,508)</u>	<u>\$ 98,634</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,415	\$ -	\$ -	\$ 6,415
Vehicles	24	-	-	24
Infrastructure	<u>11,315</u>	<u>805</u>	<u>-</u>	<u>12,120</u>
Total capital assets, being depreciated	17,754	805	-	18,559
Less accumulated depreciation for:				
Buildings and improvements	(1,719)	(257)	-	(1,976)
Vehicles	-	(7)	-	(7)
Infrastructure	<u>(7,220)</u>	<u>(217)</u>	<u>-</u>	<u>(7,437)</u>
Total accumulated depreciation	<u>(8,939)</u>	<u>(481)</u>	<u>-</u>	<u>(9,420)</u>
Total capital assets, being depreciated, net	8,815	324	-	9,139
Capital assets, not being depreciated:				
Land	978	-	-	978
Construction in progress	<u>693</u>	<u>112</u>	<u>(805)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,671</u>	<u>112</u>	<u>(805)</u>	<u>978</u>
Business-type activities capital assets, net	<u>\$ 10,486</u>	<u>\$ 436</u>	<u>\$ (805)</u>	<u>\$ 10,117</u>

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

Governmental Activities:	
General government	\$ 259
Public safety	487
Education	1,568
Public works	743
Culture and recreation	<u>204</u>
Total depreciation expense - governmental activities	<u>\$ 3,261</u>
Business-Type Activities:	
Water	<u>\$ 481</u>
Total depreciation expense - business-type activities	<u>\$ 481</u>

## 9. Warrants Payable

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

## 10. Anticipation Notes Payable

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

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/14
Bond anticipation	0.00%	01/15/12	01/15/15	\$ 300,000
Bond anticipation	0.17%	09/14/13	09/12/14	<u>13,285,000</u>
Total				<u>\$ 13,585,000</u>

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

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
	<u>\$ 8,800,000</u>	<u>\$ 13,285,000</u>	<u>\$ (8,500,000)</u>	<u>\$ 13,585,000</u>
Total	<u>\$ 8,800,000</u>	<u>\$ 13,285,000</u>	<u>\$ (8,500,000)</u>	<u>\$ 13,585,000</u>

## 11. Long-Term Debt

### A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
General purpose refunding	5/15/17	2.00%	\$ 24,500
General purpose refunding	5/15/18	2.00%	85,000
Police station construction refunding	5/15/17	2.00%	520,500
General purpose	6/15/19	3.25-4.50%	50,000
General purpose	8/15/16	4.00%	240,000
General purpose	5/15/27	3.25-4.00%	1,920,000
General purpose	5/15/29	3.00%	16,260,000
School reconstruction refunding	5/15/21	4.50%	6,850,000
Library reconstruction refunding	5/15/21	4.50%	750,000
Septic betterment	8/1/18	0.00%	54,340
Landfill closure refunding	5/15/18	2.00%	300,000
General obligation loan	06/30/32	2.87%	<u>12,940,000</u>
Total Governmental Activities:			<u>\$ 39,994,340</u>

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/14</u>
Stormwater management	08/01/22	3.00%	\$ 95,000
Well and mains refunding	05/15/15	2.00%	10,000
Plant construction and mains	06/15/24	3.25-4.80%	2,785,000
Water building and mains	08/15/16	4.00%	410,000
Plant and mains	05/15/27	3.25-4.00%	170,000
Alternative Energy	06/30/32	2.87%	660,000
Total Business-Type Activities:			<u>\$ 4,130,000</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	\$ 3,400,868	\$ 1,552,446	\$ 4,953,314
2016	3,400,868	1,461,880	4,862,748
2017	3,405,868	1,317,956	4,723,824
2018	3,185,868	1,183,428	4,369,296
2019	3,150,868	1,056,388	4,207,256
2020 - 2024	12,645,000	3,526,183	16,171,183
2025 - 2029	9,470,000	1,401,682	10,871,682
2030 - 2034	1,335,000	106,800	1,441,800
Total	<u>\$ 39,994,340</u>	<u>\$ 11,606,763</u>	<u>\$ 51,601,103</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 525,000	\$ 175,770	\$ 700,770
2016	480,000	155,767	635,767
2017	490,000	135,440	625,440
2018	345,000	117,577	462,577
2019	345,000	102,544	447,544
2020 - 2024	1,690,000	278,201	1,968,201
2025 - 2029	230,000	30,450	260,450
2030 - 2034	25,000	1,000	26,000
Total	<u>\$ 4,130,000</u>	<u>\$ 996,749</u>	<u>\$ 5,126,749</u>

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

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

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 43,355	\$ -	\$ (3,361)	\$ 39,994	\$ (3,401)	\$ 36,593
Other:						
Compensated absences	3,574	-	(216)	3,358	(168)	3,190
Bond premium	1,610	-	(102)	1,508	(101)	1,407
Accrued other post-employment benefits	14,297	3,277	-	17,574	-	17,574
Totals	\$ <u>62,836</u>	\$ <u>3,277</u>	\$ <u>(3,679)</u>	\$ <u>62,434</u>	\$ <u>(3,670)</u>	\$ <u>58,764</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,660	\$ -	\$ (530)	\$ 4,130	\$ (525)	\$ 3,605
Other:						
Compensated absences	126	-	(7)	119	(6)	113
Accrued other post-employment benefits	730	173	-	903	-	903
Totals	\$ <u>5,516</u>	\$ <u>173</u>	\$ <u>(537)</u>	\$ <u>5,152</u>	\$ <u>(531)</u>	\$ <u>4,621</u>

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

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>		
	<u>Governmental Activities</u>		<u>General Fund</u>	<u>High School Capital Project Fund</u>	<u>Nonmajor Governmental Fund</u>
Taxes paid in advance	\$ 24,505		\$ 24,505	\$ -	\$ -
Unearned revenue	-		1,197,816	376,700	1,182,351
Total	\$ <u>24,505</u>		\$ <u>1,222,321</u>	\$ <u>376,700</u>	\$ <u>1,182,351</u>

**13. 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.

#### **14. Governmental Funds - Balances**

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

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, special article appropriations approved at Town Meeting, stabilization funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

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

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

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

	General Fund	High School Capital Project Fund	Road Reconstruction Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 166,460	\$ 166,460
Total Nonspendable	-	-	-	166,460	166,460
<b>Restricted</b>					
Bonded projects	-	-	-	225,122	225,122
Debt service	1,012,883	-	-	-	1,012,883
Special revenue funds	-	-	-	4,569,628	4,569,628
Expendable permanent funds	-	-	-	1,605,976	1,605,976
Total Restricted	1,012,883	-	-	6,400,726	7,413,609
<b>Committed</b>					
Continued appropriations					
General government	722,611	-	-	-	722,611
Public safety	72,046	-	-	-	72,046
Education	3,732	-	-	-	3,732
Public works	232,017	-	-	-	232,017
Culture and recreation	9,060	-	-	-	9,060
OPEB stabilization	604,680	-	-	-	604,680
Community preservation	-	-	-	2,420,105	2,420,105
Total Committed	1,644,146	-	-	2,420,105	4,064,251
<b>Assigned</b>					
Encumbrances					
General government	32,283	-	-	-	32,283
Public safety	1,518	-	-	-	1,518
Education	19,157	-	-	-	19,157
Public works	31,576	-	-	-	31,576
Health and human services	357	-	-	-	357
Employee benefits	6,934	-	-	-	6,934
Reserved for expenditures	1,533,736	-	-	-	1,533,736
Total Assigned	1,625,561	-	-	-	1,625,561
<b>Unassigned</b>					
General stabilization	1,909,462	-	-	-	1,909,462
Unassigned	4,052,170	(6,934,690)	(2,167,702)	(216,269)	(5,266,491)
Total Unassigned	5,961,632	(6,934,690)	(2,167,702)	(216,269)	(3,357,029)
Total Fund Balances	\$ 10,244,222	\$ (6,934,690)	\$ (2,167,702)	\$ 8,771,022	\$ 9,912,852

## 15. 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 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	\$ 5,961,632
Stabilization fund	(1,909,462)
Tax refund estimate	<u>168,012</u>
Statutory (UMAS) Balance	<u>\$ 4,220,182</u>

**16. Subsequent Events**

Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 1,476,698	1.00%	09/12/14	09/11/15
General obligation bond	\$ 10,810,000	2.50%	09/11/14	09/01/32

**17. Commitments and Contingencies**

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

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

**18. Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

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

post-employment benefit liability is recognized on the Statement of Net Position over time.

*A. Plan Description*

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2011, the actuarial valuation date, approximately 322 retirees and 515 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 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 January 1, 2011.

Annual Required Contribution (ARC)	\$ 5,153,319
Interest on net OPEB obligation	638,667
Adjustment to ARC	<u>(673,177)</u>
Annual OPEB cost	5,118,809
Contributions made	<u>(1,669,476)</u>
Increase in net OPEB obligation	3,449,333
Net OPEB obligation - beginning of year	<u>15,027,457</u>
Net OPEB obligation - end of year	<u><u>\$ 18,476,790</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 5,118,809	33%	\$ 18,476,790
2013	\$ 4,806,263	31%	\$ 15,027,457
2012	\$ 4,508,955	31%	\$ 11,708,964

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

*E. Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2011, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 47,798
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>47,798</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>28,675</u>
UAAL as a percentage of covered payroll	<u>166.7%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members

to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 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 4.25% investment rate of return and an initial annual healthcare cost trend rate of between 5% and 7.02%, after the initial year trends start at 8% or 9% and decrease to 5% or 6% over 6 to 8 years (depending on health insurance plan). 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 3.25%.

## **19. Pension Plan**

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Plymouth County Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

### **A. Plan Description**

The Town contributes to the Plymouth 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 that can be obtained through the Plymouth County Retirement System at 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

### **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 Massachu-

setts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$2,426,018, \$2,331,038, and \$2,021,104, respectively, which were equal to its annual required contributions for each of these years.

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

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

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

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

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

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

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$6,006,220 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**20. Risk Management**

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

**21. Beginning Net Position Restatement and Reclassification**

The beginning (July 1, 2013) net position of the Town has been restated and reclassified as follows:

Fund Basis Financial Statements:

	Nonmajor <u>Fund</u>	Community Preservation <u>Fund</u>	Road Reconstruction <u>Fund</u>
As previously reported	\$ 5,891,466	\$ 2,942,287	\$ -
To reclass Community Preservation to nonmajor	2,942,287	(2,942,287)	-
To reclass Road Reconstruction to a major fund	<u>93,842</u>	<u>-</u>	<u>(93,842)</u>
As restated	<u>\$ 8,927,595</u>	<u>\$ -</u>	<u>\$ (93,842)</u>

**22. Implementation of New GASB Standard**

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 Plymouth County Retirement System's actuarially accrued liability.

**TOWN OF HANOVER, 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 Percentage of Covered Payroll [(b-a)/c]
01/01/11	\$ -	\$ 47,798	\$ 47,798	0.0%	\$ 28,675	166.7%
07/01/08	\$ -	\$ 33,604	\$ 33,604	0.0%	\$ 24,891	135.0%

**PLYMOUTH COUNTY RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

(Amounts Expressed in thousands)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/13	\$ 666,900	\$ 1,319,765	\$ 652,865	50.5%	\$ 238,655	273.6%
01/01/11	\$ 666,731	\$ 1,187,447	\$ 520,716	56.1%	\$ 228,290	228.1%
01/01/10	\$ 673,709	\$ 1,132,847	\$ 459,138	59.5%	\$ 227,508	201.8%
01/01/09	\$ 579,877	\$ 1,159,211	\$ 579,334	50.0%	\$ 264,541	219.0%
01/01/08	\$ 683,820	\$ 1,056,020	\$ 372,200	64.8%	\$ 252,683	147.3%

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

Plan Year End	System Wide			Town of Hanover	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 54,966	\$ 54,966	100%	\$ 2,426	4.4%
12/31/12	\$ 52,815	\$ 52,815	100%	\$ 2,331	4.4%
12/31/11	\$ 46,851	\$ 46,851	100%	\$ 2,021	4.3%
12/31/10	\$ 48,987	\$ 48,987	100%	\$ 2,055	4.2%

See Independent Auditors' Report.