

TOWN OF WINTHROP, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2014

TOWN OF WINTHROP, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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Independent Auditor's Report

To the Honorable Town Council
Town of Winthrop, Massachusetts

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Winthrop, Massachusetts, as of and for the year ended June 30, 2014 (except for Winthrop Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 the 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 Winthrop, Massachusetts, as of June 30, 2014 (except for the Winthrop Contributory Retirement System which is as of and for the year ended December 31, 2013), and the respective changes in financial position, and, where applicable, cash flows thereof 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 the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, 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 sufficient evidence 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 February 20, 2015, on our consideration of the Town of Winthrop, 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 the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Winthrop, Massachusetts' internal control over financial reporting and compliance.



February 20, 2015

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Winthrop ("the Town), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2014. We encourage readers to consider the information presented in this report in conjunction with the Town's financial statements. All amounts unless, otherwise noted, are presented in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The net position of the Town at the close of the most recent year was \$40.4 million.
- At the close of the current year, the Town's general fund reported an ending fund balance of \$4.6 million. Total fund balance represents 10.4% of total general fund budgetary expenditures.
- Included as part of the general fund is the stabilization fund with an ending balance of \$1.1 million compared to a balance of \$528,000 at the end of 2013.
- The Town's total long-term debt was \$10 million at year end, a net decrease of \$955,000 during the current year due to the proceeds of water debt of \$275,000 offset by current year total principal payments of \$1.2 million.
- The Town's other postemployment (OPEB) benefit liability increased by \$3.2 million, totaling \$15.7 million as of June 30, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Winthrop's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the basic financial statements. This report also contains other required 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 finances in a manner similar to private sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (i.e. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are primarily 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, human services, culture and recreation, and interest.

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 statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the 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 info 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.

The Town of Winthrop adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison statement is presented as required supplementary information after the notes to the basic financial statements.

Proprietary funds. The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary fund statements provide separate information for the sewer, water, skating rink, harbor/waterways, and recreation enterprise funds.

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. The Town maintains three different fiduciary funds.

The *pension trust fund* is used to account for resources held in trust for members of the Winthrop Contributory Retirement System.

The *private purpose trust fund* is used to account for resources held in trust which principle and investment income exclusively benefit individuals or private organizations. The *agency fund* is used to account for assets held in a purely custodial capacity.

Notes to the basic 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.

Financial Highlights. The following pages provide financial highlights of the government-wide financial statements for 2014 in comparison to 2013.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s assets exceeded liabilities by \$40.4 million at the close of 2014.

Net position of \$39 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its 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 the Town’s net position totaling \$993,000 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a balance of \$443,000, may be used to meet the government’s ongoing obligations to citizens and creditors.

The financial analysis of the Town’s governmental and business-type activities is presented on the following pages.

Governmental Activities

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. For governmental activities, assets exceeded liabilities by \$26 million at the close of 2014.

	2014	2013
Assets:		
Current assets.....	\$ 18,825,918	\$ 8,937,869
Capital assets.....	40,799,658	36,399,339
Total assets.....	59,625,576	45,337,208
Liabilities:		
Current liabilities (excluding debt).....	3,503,467	1,726,240
Noncurrent liabilities (excluding debt).....	15,510,325	12,496,475
Current debt.....	8,804,640	760,000
Noncurrent debt.....	5,790,000	6,570,000
Total liabilities.....	33,608,432	21,552,715
Net Position:		
Net investment in capital assets.....	29,889,598	28,506,328
Restricted.....	993,379	1,135,115
Unrestricted.....	(4,865,833)	(5,856,950)
Total net position.....	\$ 26,017,144	\$ 23,784,493

The governmental activities net position increased by \$2.2 million during the current year. The increase in net position is due to the recognition of \$4 million of capital grants and better than anticipated results in the general fund. The increase is offset by a \$3.1 million increase in the other postemployment benefits liability and as a result of depreciation expense exceeding principal payments on long-term debt by \$731,000.

	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services.....	\$ 2,251,451	\$ 2,240,168
Operating grants and contributions.....	15,069,767	13,333,178
Capital grants and contributions.....	3,958,236	1,788,001
General revenues:		
Real estate, personal property and tax liens.....	25,563,625	24,612,658
Penalties and interest on taxes.....	278,498	315,688
Payments in lieu of taxes.....	5,646	5,637
Hotel and motel taxes.....	218,234	182,696
Motor vehicle and boat excise taxes.....	1,720,630	1,659,842
Nonrestricted grants.....	3,848,926	3,962,455
Unrestricted investment income.....	53,755	41,259
Total revenues.....	<u>52,968,768</u>	<u>48,141,582</u>
Expenses:		
General government.....	3,930,033	3,502,663
Public safety.....	9,795,391	9,078,041
Education.....	32,310,515	30,553,678
Public works.....	3,211,120	2,582,868
Human services.....	723,929	650,739
Culture and recreation.....	846,264	739,332
Interest.....	248,909	275,576
Total expenses.....	<u>51,066,161</u>	<u>47,382,897</u>
Transfers, net.....	<u>330,044</u>	<u>160,947</u>
Change in net position.....	2,232,651	919,632
Net position, beginning of year.....	<u>23,784,493</u>	<u>22,864,861</u>
Net position, end of year.....	<u>\$ 26,017,144</u>	<u>\$ 23,784,493</u>

Governmental expenses totaled \$51.1 million of which \$21.3 million was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$31.7 million, primarily coming from property taxes, excise taxes, and grants not restricted to specific programs.

Charges for services represent 11% of governmental program revenues. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered are set by Town Council and Town boards.

Operating grants and contributions, which account for 71% of governmental program revenues, increased \$1.7 million and this is due to increases in Chapter 70 operating grants from the Commonwealth as well as an increase in the revenue associated with contributions to the Massachusetts Teachers Retirement System by the Commonwealth of Massachusetts on behalf of the Town.

Capital grants and contributions, which accounts for 19% of the governmental program revenues, increased \$2.2 million and this is mainly due to revenues received from the Massachusetts School Building Authority (MSBA) in conjunction with the Middle/High School construction project.

Property taxes are the most significant revenue source for the Town's governmental activities. They comprise 48% of all revenues. Other taxes comprise 4% of the governmental activity's revenues.

Education is the largest governmental activity of the Town. A total of \$32.3 million was expended for education, of which \$16.8 million was funded by program revenues. The remaining \$15.5 million was funded by taxes and other revenue. Public safety is the second largest activity of the Town as \$9.8 million was expended, of which \$979,000 was funded by program sources, and the balance was funded by taxes and other revenues.

Business-type Activities. Business-type activities increased the Town's net position by \$14.4 million. The following tables summarize results over the last two years.

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 6,368,672	\$ 6,449,715
Noncurrent assets (excluding capital).....	224,146	-
Capital assets.....	<u>12,251,603</u>	<u>11,247,574</u>
Total assets.....	<u>18,844,421</u>	<u>17,697,289</u>
Liabilities:		
Current liabilities (excluding debt).....	170,749	82,052
Noncurrent liabilities (excluding debt).....	866,818	696,555
Current debt.....	502,186	469,686
Noncurrent debt.....	<u>2,930,472</u>	<u>3,157,658</u>
Total liabilities.....	<u>4,470,225</u>	<u>4,405,951</u>
Net Position:		
Net investment in capital assets.....	9,065,699	8,969,427
Unrestricted.....	<u>5,308,497</u>	<u>4,321,911</u>
Total net position.....	<u>\$ 14,374,196</u>	<u>\$ 13,291,338</u>

	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services.....	\$ 8,495,119	\$ 9,067,457
Operating grants and contributions.....	-	12,000
Capital grants and contributions.....	601,000	-
General revenues:		
Boat excise taxes.....	51,812	47,586
Unrestricted investment income.....	1,236	1,236
Total revenues.....	<u>9,149,167</u>	<u>9,128,279</u>
Expenses:		
Sewer.....	4,284,298	4,058,353
Water.....	2,404,983	2,255,634
Skating Rink.....	286,866	250,471
Harbor/Waterways.....	368,935	366,360
Recreation.....	391,183	389,501
Total expenses.....	<u>7,736,265</u>	<u>7,320,319</u>
Transfers, net.....	<u>(330,044)</u>	<u>(160,947)</u>
Change in net position.....	1,082,858	1,647,013
Net position, beginning of year.....	<u>13,291,338</u>	<u>11,644,325</u>
Net position, end of year.....	<u>\$ 14,374,196</u>	<u>\$ 13,291,338</u>

The \$1.1 million increase in net position primarily relates to the sewer and water enterprise funds which accounted for \$1.2 million of the increase. Net position increased by \$211,000 in the sewer fund primarily due to increased usage and the Town's ability to assess rates that are in line with costs. Net position increased by \$953,000 in the water fund primarily due to increased usage and the Town's ability to assess rates that are in line with costs, as well as \$600,000 of special assessment revenue associated with the new water meter capital project.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting 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 year.

At the end of the current year, the Town's governmental funds reported combined ending fund balances of \$5.9 million, of which \$4.6 million is related to the general fund, a deficit balance of (\$1 million) is related to the middle/high school project, and \$2.3 million is related to nonmajor governmental funds.

The general fund is the chief operating fund of the Town. At the end of the current year, unassigned fund balance of the general fund was \$3.7 million while total fund balance was \$4.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 8.4% of the total general fund budgetary expenditures, while total fund balance represents 10.4% of that same amount.

The *general fund* balance increased by \$1.4 million during the current year. This was mainly due to positive budgetary results, as well as a positive net change in GAAP revenue and expenditure accruals.

The *middle/high school capital project fund* is used to account for the activity associated with constructing a new Middle High School. The Town has been approved to receive assistance from the MSBA for 59.97% of eligible construction costs. The total cost of the project will be approximately \$81,819,000, of which the Town's share of the projected cost is \$42,614,000. Fund balance at year-end was in a temporary deficit of (\$1 million) as a result of the Town financing their share of the project currently with \$8,024,640 of short-term notes. GAAP only recognizes long-term debt issuances as a source of funds while short-term debt is recognized as a fund liability. Once the Town converts the short-term notes to long-term bonds the deficit will be eliminated.

General Fund Budgetary Highlights

The \$1.8 million increase from the original budget of \$40 million to the final budget of \$41.8 million primarily consists of \$1 million of transfers to stabilization funds, as well as \$594,000 to fund capital articles; the majority of which was funded through free cash.

Actual results from operations were better than anticipated as the Town collected \$1.5 million more in revenue than budgeted and departments expended \$290,000 less than budgeted.

Capital Asset and Debt Administration

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$53 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, equipment, vehicles, infrastructure, and other improvements.

At the end of the year the Town had total bonded debt outstanding of \$10 million of which \$6.6 million is related to governmental projects, \$2.5 million relates to water enterprise fund, \$365,000 is related to the skating rink enterprise fund, \$345,000 relates to harbor/waterways, and the balance of \$247,000 relates to the sewer enterprise fund.

Please refer to notes 4, 7, and 8 to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Winthrop'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 the Chief Financial Officer, 1 Metcalf Square, Winthrop, Massachusetts 01803.

Basic Financial Statements

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STATEMENT OF NET POSITION

JUNE 30, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 14,164,742	\$ 2,853,979	\$ 17,018,721
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	609,522	-	609,522
Tax liens.....	707,975	-	707,975
Motor vehicle and boat excise taxes.....	327,849	64,675	392,524
User fees.....	-	3,245,850	3,245,850
Special assessments.....	-	204,168	204,168
Intergovernmental.....	3,015,830	-	3,015,830
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special assessments.....	-	224,146	224,146
Capital assets:			
Nondepreciable.....	9,709,454	534,438	10,243,892
Depreciable.....	31,090,204	11,717,165	42,807,369
TOTAL ASSETS.....	59,625,576	18,844,421	78,469,997
LIABILITIES			
CURRENT:			
Warrants payable.....	2,517,921	101,359	2,619,280
Accrued payroll.....	369,353	59,266	428,619
Accrued interest.....	59,074	10,124	69,198
Payroll withholdings.....	259,774	-	259,774
Abandoned property.....	50,376	-	50,376
Capital lease obligations.....	142,969	-	142,969
Compensated absences.....	104,000	-	104,000
Notes payable.....	8,024,640	-	8,024,640
Bonds payable.....	780,000	502,186	1,282,186
NONCURRENT:			
Capital lease obligations.....	322,991	-	322,991
Compensated absences.....	338,000	-	338,000
Other postemployment benefits.....	14,849,334	866,818	15,716,152
Bonds payable.....	5,790,000	2,930,472	8,720,472
TOTAL LIABILITIES.....	33,608,432	4,470,225	38,078,657
NET POSITION			
Net investment in capital assets.....	29,889,598	9,065,699	38,955,297
Restricted for:			
Permanent funds:			
Nonexpendable.....	596,120	-	596,120
Expendable.....	98,004	-	98,004
Gifts and grants.....	299,255	-	299,255
Unrestricted.....	(4,865,833)	5,308,497	442,664
TOTAL NET POSITION.....	\$ 26,017,144	\$ 14,374,196	\$ 40,391,340

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 3,930,033	\$ 302,426	\$ 165,116	\$ 385,844	\$ (3,076,647)
Public safety.....	9,795,391	840,193	80,128	59,024	(8,816,046)
Education.....	32,310,515	889,566	13,103,811	2,801,631	(15,515,507)
Public works.....	3,211,120	104,931	1,681,415	665,840	(758,934)
Human services.....	723,929	110,430	33,017	34,277	(546,205)
Culture and recreation.....	846,264	3,905	6,280	11,620	(824,459)
Interest.....	248,909	-	-	-	(248,909)
Total Governmental Activities.....	<u>51,066,161</u>	<u>2,251,451</u>	<u>15,069,767</u>	<u>3,958,236</u>	(29,786,707)
<i>Business-Type Activities:</i>					
Sewer.....	4,284,298	4,668,344	-	-	384,046
Water.....	2,404,983	2,892,539	-	601,000	1,088,556
Skating rink.....	286,866	298,411	-	-	11,545
Harbor/Waterways.....	368,935	299,612	-	-	(69,323)
Recreation.....	391,183	336,213	-	-	(54,970)
Total Business-Type Activities.....	<u>7,736,265</u>	<u>8,495,119</u>	<u>-</u>	<u>601,000</u>	1,359,854
Total Primary Government.....	<u>\$ 58,802,426</u>	<u>\$ 10,746,570</u>	<u>\$ 15,069,767</u>	<u>\$ 4,559,236</u>	<u>(28,426,853)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (29,786,707)	\$ 1,359,854	\$ (28,426,853)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	25,335,183	-	25,335,183
Tax liens.....	228,442	-	228,442
Motor vehicle and boat excise taxes.....	1,720,630	51,812	1,772,442
Hotel, motel and meals tax.....	218,234	-	218,234
Penalties and interest on taxes.....	278,498	-	278,498
Payments in lieu of taxes.....	5,646	-	5,646
Grants and contributions not restricted to specific programs.....	3,848,926	-	3,848,926
Unrestricted investment income.....	53,755	1,236	54,991
<i>Transfers, net</i>	330,044	(330,044)	-
Total general revenues and transfers.....	32,019,358	(276,996)	31,742,362
Change in net position.....	2,232,651	1,082,858	3,315,509
<i>Net Position:</i>			
Beginning of year.....	23,784,493	13,291,338	37,075,831
End of year.....	\$ <u>26,017,144</u>	\$ <u>14,374,196</u>	\$ <u>40,391,340</u>

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

	General	Middle/High School Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 5,513,324	\$ 6,404,528	\$ 2,246,890	\$ 14,164,742
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	609,522	-	-	609,522
Tax liens.....	707,975	-	-	707,975
Motor vehicle excise taxes.....	327,849	-	-	327,849
Intergovernmental.....	-	2,543,000	472,830	3,015,830
Due from other funds.....	206,637	-	-	206,637
TOTAL ASSETS.....	<u>\$ 7,365,307</u>	<u>\$ 8,947,528</u>	<u>\$ 2,719,720</u>	<u>\$ 19,032,555</u>
LIABILITIES				
Warrants payable.....	\$ 487,661	\$ 1,967,575	\$ 62,685	\$ 2,517,921
Accrued payroll.....	346,118	-	23,235	369,353
Payroll withholdings.....	259,774	-	-	259,774
Abandoned property.....	50,376	-	-	50,376
Due to other funds.....	-	-	206,637	206,637
Notes payable.....	-	8,024,640	-	8,024,640
TOTAL LIABILITIES.....	<u>1,143,929</u>	<u>9,992,215</u>	<u>292,557</u>	<u>11,428,701</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues.....	1,573,098	-	85,726	1,658,824
FUND BALANCES				
Nonspendable.....	-	-	596,120	596,120
Restricted.....	-	-	1,745,317	1,745,317
Committed.....	555,387	-	-	555,387
Assigned.....	361,045	-	-	361,045
Unassigned.....	3,731,848	(1,044,687)	-	2,687,161
TOTAL FUND BALANCES.....	<u>4,648,280</u>	<u>(1,044,687)</u>	<u>2,341,437</u>	<u>5,945,030</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	<u>\$ 7,365,307</u>	<u>\$ 8,947,528</u>	<u>\$ 2,719,720</u>	<u>\$ 19,032,555</u>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2014

Total governmental fund balances.....	\$	5,945,030
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		40,799,658
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		1,658,824
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(59,074)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(6,570,000)	
Capital lease obligations.....	(465,960)	
Compensated absences.....	(442,000)	
Other postemployment benefits.....	<u>(14,849,334)</u>	
Net effect of reporting long-term liabilities.....		<u>(22,327,294)</u>
Net position of governmental activities.....	\$	<u>26,017,144</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2014

	General	Middle/High School Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 25,278,337	\$ -	\$ -	\$ 25,278,337
Tax liens.....	228,442	-	-	228,442
Motor vehicle and boat excise taxes.....	1,754,978	-	-	1,754,978
Hotel, motel and meal tax.....	218,234	-	-	218,234
Penalties and interest on taxes.....	278,498	-	-	278,498
Charges for services.....	280,774	-	1,128,981	1,409,755
Payments in lieu of taxes.....	5,646	-	-	5,646
Licenses and permits.....	705,225	-	-	705,225
Fines and forfeitures.....	5,670	-	-	5,670
Intergovernmental.....	16,450,477	2,757,847	2,911,362	22,119,686
Departmental and other.....	201,330	-	359,963	561,293
Contributions.....	39,008	-	79,918	118,926
Investment income.....	48,489	-	5,266	53,755
Miscellaneous.....	82,085	-	-	82,085
TOTAL REVENUES.....	45,577,193	2,757,847	4,485,490	52,820,530
EXPENDITURES:				
Current:				
General government.....	1,783,705	-	680,823	2,464,528
Public safety.....	5,609,470	-	128,712	5,738,182
Education.....	17,313,442	4,063,747	2,774,799	24,151,988
Public works.....	2,367,767	-	679,450	3,047,217
Human services.....	401,722	-	86,863	488,585
Culture and recreation.....	466,668	-	130,287	596,955
Shared expenses.....	749,846	-	-	749,846
Pension benefits.....	7,558,384	-	-	7,558,384
Employee benefits.....	5,960,855	-	-	5,960,855
State and county charges.....	662,110	-	-	662,110
Capital outlay.....	770,930	-	-	770,930
Debt service:				
Principal.....	760,000	-	-	760,000
Interest.....	255,979	-	-	255,979
TOTAL EXPENDITURES.....	44,660,878	4,063,747	4,480,934	53,205,559
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	916,315	(1,305,900)	4,556	(385,029)
OTHER FINANCING SOURCES (USES):				
Capital lease financing.....	81,750	-	-	81,750
Transfers in.....	577,801	200,000	437,066	1,214,867
Transfers out.....	(193,362)	(243,704)	(447,757)	(884,823)
TOTAL OTHER FINANCING SOURCES (USES).....	466,189	(43,704)	(10,691)	411,794
NET CHANGE IN FUND BALANCES.....	1,382,504	(1,349,604)	(6,135)	26,765
FUND BALANCES AT BEGINNING OF YEAR.....	3,265,776	304,917	2,347,572	5,918,265
FUND BALANCES AT END OF YEAR.....	\$ 4,648,280	\$ (1,044,687)	\$ 2,341,437	\$ 5,945,030

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds..... \$ 26,765

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.

Capital outlay.....	5,891,022
Depreciation expense.....	<u>(1,490,703)</u>

Net effect of reporting capital assets..... 4,400,319

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....

2,238

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease financing.....	(81,750)
Debt service principal payments.....	<u>760,000</u>

Net effect of reporting long-term debt..... 678,250

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(63,000)
Net change in accrued interest on long-term debt.....	7,070
Net change in workers compensation.....	56,000
Net change in capital lease obligations.....	178,801
Net change in other postemployments benefit accrual.....	<u>(3,053,792)</u>

Net effect of recording long-term liabilities and amortizing deferred losses..... (2,874,921)

Change in net position of governmental activities..... \$ 2,232,651

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Skating Rink	Harbor/ Waterways	Recreation	Total
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 966,444	\$ 1,432,803	\$ 91,980	\$ 310,849	\$ 51,903	\$ 2,853,979
Receivables, net of allowance for uncollectibles:						
Boat excise tax.....	-	-	-	64,675	-	64,675
User fees.....	2,003,961	1,241,889	-	-	-	3,245,850
Special assessments.....	-	204,168	-	-	-	204,168
Total current assets.....	<u>2,970,405</u>	<u>2,878,860</u>	<u>91,980</u>	<u>375,524</u>	<u>51,903</u>	<u>6,368,672</u>
NONCURRENT:						
Receivables, net of allowance for uncollectibles:						
Special assessments.....	-	224,146	-	-	-	224,146
Capital assets, net of accumulated depreciation:						
Nondepreciable.....	37,999	496,439	-	-	-	534,438
Depreciable.....	2,613,957	2,810,288	1,614,723	4,211,815	466,382	11,717,165
Total noncurrent assets.....	<u>2,651,956</u>	<u>3,530,873</u>	<u>1,614,723</u>	<u>4,211,815</u>	<u>466,382</u>	<u>12,475,749</u>
TOTAL ASSETS.....	<u>5,622,361</u>	<u>6,409,733</u>	<u>1,706,703</u>	<u>4,587,339</u>	<u>518,285</u>	<u>18,844,421</u>
LIABILITIES						
CURRENT:						
Warrants payable.....	86,990	3,909	1,115	9,345	-	101,359
Accrued payroll.....	20,775	19,479	59	9,363	9,590	59,266
Accrued interest.....	-	-	4,915	5,209	-	10,124
Bonds payable.....	101,926	305,260	45,000	50,000	-	502,186
Total current liabilities.....	<u>209,691</u>	<u>328,648</u>	<u>51,089</u>	<u>73,917</u>	<u>9,590</u>	<u>672,935</u>
NONCURRENT:						
Other postemployment benefits.....	335,522	279,479	40,755	75,295	135,767	866,818
Bonds payable.....	145,552	2,169,920	320,000	295,000	-	2,930,472
Total noncurrent liabilities.....	<u>481,074</u>	<u>2,449,399</u>	<u>360,755</u>	<u>370,295</u>	<u>135,767</u>	<u>3,797,290</u>
TOTAL LIABILITIES.....	<u>690,765</u>	<u>2,778,047</u>	<u>411,844</u>	<u>444,212</u>	<u>145,357</u>	<u>4,470,225</u>
NET POSITION						
Net investment in capital assets.....	2,404,478	1,078,301	1,249,723	3,866,815	466,382	9,065,699
Unrestricted.....	2,527,118	2,553,385	45,136	276,312	(93,454)	5,308,497
TOTAL NET POSITION.....	<u>\$ 4,931,596</u>	<u>\$ 3,631,686</u>	<u>\$ 1,294,859</u>	<u>\$ 4,143,127</u>	<u>\$ 372,928</u>	<u>\$ 14,374,196</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Skating Rink	Harbor/ Waterways	Recreation	Total
OPERATING REVENUES:						
Charges for services	\$ 4,604,101	\$ 2,847,241	\$ 298,411	\$ 299,612	\$ 336,213	\$ 8,385,578
Boat excise revenue.....	-	-	-	51,812	-	51,812
TOTAL OPERATING REVENUES	4,604,101	2,847,241	298,411	351,424	336,213	8,437,390
OPERATING EXPENSES:						
Cost of services and administration	1,040,418	912,606	223,370	231,793	379,057	2,787,244
MWRA Assessment.....	3,161,934	1,429,691	-	-	-	4,591,625
Depreciation.....	81,946	62,686	48,762	123,193	12,126	328,713
TOTAL OPERATING EXPENSES	4,284,298	2,404,983	272,132	354,986	391,183	7,707,582
OPERATING INCOME (LOSS).....	319,803	442,258	26,279	(3,562)	(54,970)	729,808
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	744	492	-	-	-	1,236
Interest expense.....	-	-	(14,734)	(13,949)	-	(28,683)
Penalties and interest.....	64,243	45,298	-	-	-	109,541
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	64,987	45,790	(14,734)	(13,949)	-	82,094
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS.....	384,790	488,048	11,545	(17,511)	(54,970)	811,902
TRANSFERS:						
Transfers out.....	(174,047)	(136,250)	-	(19,747)	-	(330,044)
TOTAL TRANSFERS.....	(174,047)	(136,250)	-	(19,747)	-	(330,044)
CAPITAL CONTRIBUTIONS:						
Special assessments.....	-	601,000	-	-	-	601,000
CHANGE IN NET POSITION.....	210,743	952,798	11,545	(37,258)	(54,970)	1,082,858
NET POSITION AT BEGINNING OF YEAR.....	4,720,853	2,678,888	1,283,314	4,180,385	427,898	13,291,338
NET POSITION AT END OF YEAR.....	\$ 4,931,596	\$ 3,631,686	\$ 1,294,859	\$ 4,143,127	\$ 372,928	\$ 14,374,196

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Skating Rink	Harbor/ Waterways	Recreation	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>						
Receipts from customers and users.....	\$ 4,856,258	\$ 2,942,657	\$ 298,411	\$ 343,338	\$ 336,213	\$ 8,776,877
Payments to vendors.....	(3,578,799)	(1,878,884)	(134,226)	(111,836)	(94,283)	(5,798,028)
Payments to employees.....	(482,180)	(401,339)	(83,074)	(100,982)	(253,294)	(1,320,869)
NET CASH FROM OPERATING ACTIVITIES.....	795,279	662,434	81,111	130,520	(11,364)	1,657,980
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>						
Transfers out.....	(174,047)	(136,250)	-	(19,747)	-	(330,044)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>						
Proceeds from the issuance of bonds and notes.....	-	275,000	-	-	-	275,000
Special assessments.....	-	172,686	-	-	-	172,686
Acquisition and construction of capital assets.....	(191,786)	(1,084,267)	(48,697)	(7,992)	-	(1,332,742)
Principal payments on bonds and notes.....	(101,926)	(277,760)	(45,000)	(45,000)	-	(469,686)
Interest expense.....	-	-	(15,240)	(14,455)	-	(29,695)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(293,712)	(914,341)	(108,937)	(67,447)	-	(1,384,437)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>						
Investment income.....	744	492	-	-	-	1,236
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	328,264	(387,665)	(27,826)	43,326	(11,364)	(55,265)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	638,180	1,820,468	119,806	267,523	63,267	2,909,244
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 966,444	\$ 1,432,803	\$ 91,980	\$ 310,849	\$ 51,903	\$ 2,853,979
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>						
Operating income (loss).....	\$ 319,803	\$ 442,258	\$ 26,279	\$ (3,562)	\$ (54,970)	\$ 729,808
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	81,946	62,686	48,762	123,193	12,126	328,713
Penalties and interest.....	64,243	45,298	-	-	-	109,541
Changes in assets and liabilities:						
User fees.....	187,914	50,118	-	(8,086)	-	229,946
Warrants payable.....	80,579	635	(2,370)	514	-	79,358
Other postemployment liabilities.....	69,001	57,476	8,381	15,485	27,920	178,263
Accrued payroll.....	246	3,963	59	2,976	3,560	10,804
Accrued compensated absences.....	(8,453)	-	-	-	-	(8,453)
Total adjustments.....	475,476	220,176	54,832	134,082	43,606	928,172
NET CASH FROM OPERATING ACTIVITIES.....	\$ 795,279	\$ 662,434	\$ 81,111	\$ 130,520	\$ (11,364)	\$ 1,657,980

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust (1)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 324,150	\$ 345,237	\$ 86,848
Investments:			
Pension reserves investment trust.....	50,568,061	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	41,951	-	-
TOTAL ASSETS.....	50,934,162	345,237	86,848
LIABILITIES			
Liabilities due depositors.....	-	-	86,848
NET POSITION			
Held in trust for pension benefits and other purposes.....	\$ 50,934,162	\$ 345,237	\$ -

(1) The Pension trust is as of December 31, 2013.

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

	Pension Trust (1)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 2,955,261	\$ -
Employee.....	1,054,234	-
Contributions.....	-	419,752
Total contributions.....	4,009,495	419,752
Net investment income:		
Net change in fair value of investments.....	5,197,512	-
Investment income.....	1,339,372	793
Total investment income.....	6,536,884	793
Less: investment expense.....	(256,586)	-
Net investment income.....	6,280,298	793
Intergovernmental.....	72,126	-
Transfers from other systems.....	138,225	-
TOTAL ADDITIONS.....	10,500,144	420,545
DEDUCTIONS:		
Administration.....	104,587	-
Transfers to other systems.....	276,613	-
Retirement benefits and refunds.....	3,588,142	-
Educational scholarships.....	-	415,087
TOTAL DEDUCTIONS.....	3,969,342	415,087
CHANGE IN NET POSITION.....	6,530,802	5,458
NET POSITION AT BEGINNING OF YEAR.....	44,403,360	339,779
NET POSITION AT END OF YEAR.....	\$ 50,934,162	\$ 345,237

(1) The Pension trust is for the year ended December 31, 2013.

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Winthrop, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Town Council. As required by GAAP, these basic financial statements present the government and its component units, entities for which the Town is considered to be financially accountable.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the Town and the component unit.

The Winthrop Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five-member board comprised of the Finance Director of the Town (ex-officio), two members elected by the System's participants, one member appointed by the Town Council and one member appointed by the other board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 1 Metcalf Square, Winthrop, Massachusetts, 02152.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town has entered into a joint venture with the Cities of Woburn, Chelsea, Malden, and Revere and the Towns of Melrose, North Reading, Saugus, Stoneham, Wakefield and Winchester to pool resources and share the costs, risks and rewards of providing vocational education through the Northeast Metropolitan Regional Vocational School District (NMRS). The Town's assessment for 2014 was \$746,228. Stand-alone financial statements for the year ended June 30, 2014 are available at Northeast Metropolitan Regional Vocational School District, 100 Hemlock Road, Wakefield, Massachusetts 01880.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues. For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the net effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental fund is reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *middle/high school capital project fund* is used to account for activity associated with the construction of the new middle/high school.

The nonmajor governmental funds consist of special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital project.

The *capital projects fund* is used to account for financial and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The sewer, water, skating rink, harbor/waterways and recreation enterprise funds are utilized to account for user fees/charges collected to finance costs associated with the respective activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Real Estate Tax Deferrals, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate tax liens are processed by the last day in September following the last billing cycle on delinquent properties. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed. Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer Fees

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist of receivables related to the System and are recorded as receivables in the year accrued.

The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	20 - 40
Park land improvements.....	20
Equipment.....	5-10
Vehicles.....	5-15
Infrastructure.....	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has no items that qualify as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town currently has no items that qualify as a deferred inflow of resources.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental fund balance sheet.

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances."

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net."

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Permanent funds – nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Permanent funds – expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Gifts and grants” represents restrictions placed on assets from outside parties such as state and federal grants.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of town meeting. Town meeting can, by adoption of a Town Meeting warrant article, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s Chief Financial Officer is authorized to assign

fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

O. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 year. Actual results could vary from estimates that were used.

P. Fund Deficit

At June 30, 2014, a fund deficit exists in the Middle/High School Capital Project major fund. The fund was deficit was approximately \$1 million which will be funded by future grants, issuances of long term debt, and other available funds.

Q. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The Retirement System participates, as a Participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and Treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .25 to 10.54 years.

MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months. Credit ratings associated with the Town's investment in MMDT ranged from A1/P1 to A2/P2. Approximately 91% of the total was rated A1/P1 and approximately 9% rated A2/P2.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. At year-end, the carrying amount of deposits totaled \$13,811,066 and the bank balance totaled \$14,268,016. Of the bank balance, \$1,500,000 was covered by Federal Depository Insurance, \$8,497,647 was covered by the Depositors Insurance Fund (DIF) and \$4,270,369 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Town has not adopted a formal investment policy related to custodial credit risk of deposits.

The Town maintains a policy that addresses the custodial credit risk of deposits. The Town Treasurer performs a quarterly analysis, using a commercially available bank rating service, of the performance of banking institutions that have custody of Town deposits. The Town will only utilize banks that maintain the highest possible performance rating; however, additional factors such as yield, liquidity and safety of principle may cause the Town to deposit funds with institutions that have not achieved the highest possible performance rating. In those instances, the Town Treasurer will obtain appropriate account collateralization to ensure the safety of Town funds. In lieu of obtaining account collateralization the Town Treasurer may opt to move Town deposits to an institution that has achieved the highest possible performance rating.

At December 31, 2013, the carrying amount of deposits for the System totaled \$324,150 and the bank balance totaled \$326,608. All of the bank balance was covered by the FDIC and none of the funds were exposed to custodial risk.

Investments

As of June 30, 2014, the Town had \$3,582,572 invested in MMDT.

As of December 31, 2013, the System had the \$50,568,061 invested in the PRIT fund.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

Neither the Town nor the System is subject to custodial credit risk exposure for investments at year end.

The Town has not adopted a formal investment policy related to custodial credit risk for investments.

The System has not adopted a formal investment policy related to custodial credit risk.

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 for most investment types; however, at June 30, 2014, the Town did not have any investments that were subject to interest rate risk.

The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rate. However, when managing assets the System at all times must be in accordance with the provisions of the Public Employee Retirement Administration Commission (PERAC), the Employee Retirement Income Security Act (ERISA), and the Department of Labor regulations.

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations.

The Town does not have a formal investment policy regarding credit risk. The Town's investment is MMDT is unrated.

The System has not adopted a formal policy related to credit risk. At December 31, 2013 the System does not have any investments that are subject to credit risk.

Concentration of Credit Risk

The Town has not adopted a policy on the amount that may be invested in any one issuer.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer.

NOTE 3 – RECEIVABLES

At June 30, 2014, receivables for the individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	Allowance for <u>Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 609,522	\$ -	\$ 609,522
Tax liens.....	707,975	-	707,975
Motor vehicle excise taxes.....	1,002,849	(675,000)	327,849
Intergovernmental.....	<u>3,015,830</u>	<u>-</u>	<u>3,015,830</u>
Total.....	<u>\$ 5,336,176</u>	<u>\$ (675,000)</u>	<u>\$ 4,661,176</u>

At June 30, 2014, receivables for the enterprise funds consisted of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer.....	\$ 2,003,961	\$ -	\$ 2,003,961
Water.....	1,241,889	-	1,241,889
Special Assessments - Water.....	204,168	-	204,168
Harbor/Waterways.....	64,675	-	64,675
Total.....	\$ 3,514,693	\$ -	\$ 3,514,693

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

COMPONENTS OF UNAVAILABLE REVENUE

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 537,274	\$ -	\$ 537,274
Tax liens.....	707,975	-	707,975
Motor vehicle excise taxes.....	327,849	-	327,849
Intergovernmental.....	-	85,726	85,726
Total.....	\$ 1,573,098	\$ 85,726	\$ 1,658,824

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,511,907	\$ 173,953	\$ -	\$ 4,685,860
Construction in progress.....	573,102	4,450,492	-	5,023,594
Total capital assets not being depreciated.....	<u>5,085,009</u>	<u>4,624,445</u>	<u>-</u>	<u>9,709,454</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	41,635,251	10,250	(2,926,462)	38,719,039
Equipment.....	1,330,988	488,853	(384,221)	1,435,620
Vehicles.....	3,883,272	163,863	(398,790)	3,648,345
Infrastructure.....	13,764,269	603,611	(3,138)	14,364,742
Total capital assets being depreciated.....	<u>60,613,780</u>	<u>1,266,577</u>	<u>(3,712,611)</u>	<u>58,167,746</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(16,903,824)	(869,852)	2,926,462	(14,847,214)
Equipment.....	(993,149)	(80,214)	384,221	(689,142)
Vehicles.....	(2,550,290)	(307,827)	398,790	(2,459,327)
Infrastructure.....	(8,852,187)	(232,810)	3,138	(9,081,859)
Total accumulated depreciation.....	<u>(29,299,450)</u>	<u>(1,490,703)</u>	<u>3,712,611</u>	<u>(27,077,542)</u>
Total capital assets being depreciated, net.....	<u>31,314,330</u>	<u>(224,126)</u>	<u>-</u>	<u>31,090,204</u>
Total governmental activities capital assets, net.....	<u>\$ 36,399,339</u>	<u>\$ 4,400,319</u>	<u>\$ -</u>	<u>\$ 40,799,658</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 37,999	\$ -	\$ -	\$ 37,999
<u>Capital assets being depreciated:</u>				
Equipment.....	39,208	73,500	(11,768)	100,940
Vehicles.....	121,000	-	-	121,000
Infrastructure.....	3,847,748	118,286	-	3,966,034
Total capital assets being depreciated.....	4,007,956	191,786	(11,768)	4,187,974
<u>Less accumulated depreciation for:</u>				
Equipment.....	(21,277)	(6,277)	11,768	(15,786)
Vehicles.....	(105,442)	(10,371)	-	(115,813)
Infrastructure.....	(1,377,120)	(65,298)	-	(1,442,418)
Total accumulated depreciation.....	(1,503,839)	(81,946)	11,768	(1,574,017)
Total capital assets being depreciated, net.....	2,504,117	109,840	-	2,613,957
Total sewer activities capital assets, net.....	\$ 2,542,116	\$ 109,840	\$ -	\$ 2,651,956

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 12,883	\$ -	\$ -	\$ 12,883
Construction in progress.....	-	483,556	-	483,556
Total capital assets not being depreciated.....	12,883	483,556	-	496,439
<u>Capital assets being depreciated:</u>				
Equipment.....	82,624	-	(57,283)	25,341
Vehicles.....	160,068	-	(16,678)	143,390
Infrastructure.....	3,676,443	600,711	-	4,277,154
Total capital assets being depreciated.....	3,919,135	600,711	(73,961)	4,445,885
<u>Less accumulated depreciation for:</u>				
Equipment.....	(75,504)	(750)	57,283	(18,971)
Vehicles.....	(160,068)	-	16,678	(143,390)
Infrastructure.....	(1,411,300)	(61,936)	-	(1,473,236)
Total accumulated depreciation.....	(1,646,872)	(62,686)	73,961	(1,635,597)
Total capital assets being depreciated, net.....	2,272,263	538,025	-	2,810,288
Total water activities capital assets, net.....	\$ 2,285,146	\$ 1,021,581	\$ -	\$ 3,306,727

	Beginning Balance	Increases	Decreases	Ending Balance
Skating Rink Activities:				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 2,388,886	\$ -	\$ -	\$ 2,388,886
Equipment.....	37,750	48,697	-	86,447
Total capital assets being depreciated.....	<u>2,426,636</u>	<u>48,697</u>	<u>-</u>	<u>2,475,333</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(774,098)	(46,327)	-	(820,425)
Equipment.....	(37,750)	(2,435)	-	(40,185)
Total accumulated depreciation.....	<u>(811,848)</u>	<u>(48,762)</u>	<u>-</u>	<u>(860,610)</u>
Total skating rink activities capital assets, net.....	<u>\$ 1,614,788</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ 1,614,723</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Harbor/Waterways Activities:				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 709,952	\$ -	\$ -	\$ 709,952
Equipment.....	11,500	7,992	-	19,492
Vehicles.....	145,872	-	(5,000)	140,872
Infrastructure.....	4,074,214	-	-	4,074,214
Total capital assets being depreciated.....	<u>4,941,538</u>	<u>7,992</u>	<u>(5,000)</u>	<u>4,944,530</u>
<u>Less accumulated depreciation for:</u>				
Building improvements.....	(26,423)	(17,749)	-	(44,172)
Equipment.....	(11,500)	(400)	-	(11,900)
Vehicles.....	(124,185)	(12,070)	5,000	(131,255)
Infrastructure.....	(452,414)	(92,974)	-	(545,388)
Total accumulated depreciation.....	<u>(614,522)</u>	<u>(123,193)</u>	<u>5,000</u>	<u>(732,715)</u>
Total harbor/waterways activities capital assets, net.....	<u>\$ 4,327,016</u>	<u>\$ (115,201)</u>	<u>\$ -</u>	<u>\$ 4,211,815</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Recreation Activities:				
<u>Capital assets being depreciated:</u>				
Park land improvements.....	\$ 558,622	\$ -	\$ -	\$ 558,622
Vehicles.....	23,689	-	-	23,689
	<u>582,311</u>	<u>-</u>	<u>-</u>	<u>582,311</u>
<u>Less accumulated depreciation for:</u>				
Other improvements.....	(80,114)	(12,126)	-	(92,240)
Vehicles.....	(23,689)	-	-	(23,689)
	<u>(103,803)</u>	<u>(12,126)</u>	<u>-</u>	<u>(115,929)</u>
Total recreation activities capital assets, net.....	<u>\$ 478,508</u>	<u>\$ (12,126)</u>	<u>\$ -</u>	<u>\$ 466,382</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 58,308
Public safety.....	216,909
Education.....	766,310
Public works.....	396,957
Human services.....	20,717
Culture and recreation.....	<u>31,502</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,490,703</u>

Business-Type Activities:

Sewer.....	\$ 81,946
Water.....	62,686
Skating rink.....	48,762
Harbor/Waterways.....	123,193
Recreation.....	<u>12,126</u>
Total depreciation expense - business-type activities.....	<u>\$ 328,713</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended June 30, 2014 are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Middle/High School Project	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ -	\$ 193,362	\$ 193,362 (1)
Middle/High School Project.....	-	-	243,704	243,704 (2)
Nonmajor Governmental Funds.....	247,757	200,000	-	447,757 (2)
Sewer Enterprise.....	174,047	-	-	174,047 (3)
Water Enterprise.....	136,250	-	-	136,250 (3)
Harbor/Waterways Enterprise.....	19,747	-	-	19,747 (3)
Total.....	\$ <u>577,801</u>	\$ <u>200,000</u>	\$ <u>437,066</u>	\$ <u>1,214,867</u>

- (1) Budgeted transfer from the general fund for drainage improvements.
- (2) Transfers to/from the middle/high school project fund and sale of town property. Also, \$247,757 of budgeted transfers from nonmajor governmental funds to the general fund, as well as transfers to/from nonmajor governmental funds.
- (3) Budgeted transfers to the general fund from the enterprise funds for indirect costs.

NOTE 6 – CAPITAL LEASES

The Town has entered into lease agreements as lessee for a new school bus. The lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities
Equipment.....	\$ 946,901
Less: accumulated depreciation.....	<u>(274,571)</u>
Total.....	\$ <u>672,330</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>
2015.....	\$ 163,614
2016.....	121,803
2017.....	96,030
2018.....	55,864
2019.....	39,141
2020.....	<u>39,141</u>
 Total minimum lease payments.....	 515,593
Less: amounts representing interest.....	<u>(49,633)</u>
Present value of minimum lease payments.....	<u>\$ 465,960</u>

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund respectively.

The Town had the following short-term debt outstanding at year end:

<u>Type</u>	<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2013</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2014</u>
BAN	Municipal Purpose.....	0.75	11/14/14	\$ -	\$ 8,024,640	\$ -	\$ 8,024,640

At maturity on November 14, 2014, the Town rolled the full amount of the BAN with an interest rate of 0.75% and a maturity date of November 14, 2015.

NOTE 8 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Issue	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Municipal Purpose Bonds of 1995.....	2015	\$ 2,200,000	5.30-6.50%	\$ 220,000	\$ -	\$ 110,000	\$ 110,000
Municipal Purpose Bonds of 2005.....	2025	5,000,000	4.00-5.00%	3,505,000	-	225,000	3,280,000
Municipal Purpose Bonds of 2008.....	2018	500,000	3.00-4.50%	250,000	-	50,000	200,000
Municipal Purpose Bonds of 2012.....	2021	3,715,000	2.25-3.00%	3,355,000	-	375,000	2,980,000
Total.....				\$ 7,330,000	\$ -	\$ 760,000	\$ 6,570,000

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2015.....	\$ 780,000	\$ 230,329	\$ 1,010,329
2016.....	700,000	203,498	903,498
2017.....	730,000	179,948	909,948
2018.....	745,000	154,623	899,623
2019.....	725,000	129,098	854,098
2020.....	745,000	104,348	849,348
2021.....	770,000	78,602	848,602
2022.....	320,000	58,916	378,916
2023.....	335,000	45,476	380,476
2024.....	350,000	31,238	381,238
2025.....	370,000	16,188	386,188
Total.....	\$ 6,570,000	\$ 1,232,264	\$ 7,802,264

Bonds and Notes Payable Schedule – Enterprise Funds

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. The majority of the Town’s Sewer and Water Enterprise Fund debt is issued through this program. The interest imputed on the remaining life of the 0% MWRA bonds is immaterial to the financial statements and therefore no adjustments have been made to recognize the imputed interest.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant, a loan and a grant to forgive interest on the loan. The loan portion is payable in either five or ten equal annual installments. At June 30, 2014, the outstanding principal amount of these loans totaled \$2.7 million.

Issue	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Sewer:							
MWRA Sewer Bond of 2010.....	2015	145,750	0.00%	\$ 58,300	\$ -	\$ 29,150	\$ 29,150
MWRA Water Bond of 2012.....	2017	363,880	0.00%	291,104	-	72,776	218,328
Total Sewer bonds payable.....				<u>349,404</u>	<u>-</u>	<u>101,926</u>	<u>247,478</u>
Water:							
MWRA Water Bond of 2008.....	2019	323,000	0.00%	193,800	-	32,300	161,500
MWRA Water Bond of 2012.....	2022	1,704,600	0.00%	1,534,140	-	170,460	1,363,680
MWRA Water Bond of 2013.....	2023	750,000	0.00%	750,000	-	75,000	675,000
MWRA Water Bond of 2014.....	2024	275,000	0.00%	-	275,000	-	275,000
Total Water bonds payable.....				<u>2,477,940</u>	<u>275,000</u>	<u>277,760</u>	<u>2,475,180</u>
Skating Rink:							
General Obligation Bonds of 2008.....	2021	600,000	3.00-4.50%	410,000	-	45,000	365,000
Harbor/Waterways:							
General Obligation Bonds of 2008.....	2021	600,000	3.00-4.500%	390,000	-	45,000	345,000
Total Enterprise Bonds Payable.....				<u>\$ 3,627,344</u>	<u>\$ 275,000</u>	<u>\$ 469,686</u>	<u>\$ 3,432,658</u>

Debt service requirements for principal and interest for Enterprise bonds payable in future years are as follows:

Year	Principal	Interest	Total
2015.....	\$ 502,186	\$ 26,996	\$ 529,182
2016.....	478,036	24,146	502,182
2017.....	478,036	19,646	497,682
2018.....	410,260	15,146	425,406
2019.....	405,260	11,470	416,730
2020.....	372,960	7,572	380,532
2021.....	382,960	4,070	387,030
2022.....	272,960	-	272,960
2023.....	102,500	-	102,500
2024.....	27,500	-	27,500
Total.....	<u>\$ 3,432,658</u>	<u>\$ 109,046</u>	<u>\$ 3,541,704</u>

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2014, the Town had the following authorized and unissued debt:

Purpose	Amount
Sewer Mains.....	\$ 252,495
Middle High School Building.....	79,306,549
Total.....	<u>\$ 79,559,044</u>

Changes in Long-term Liabilities

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

	Balance at June 30, 2013	Bonds Issued	Bonds Redeemed	Other Increase	Other (Decrease)	Balance at June 30, 2014	Current Portion
Governmental Activities:							
Long-term bonds.....	\$ 7,330,000	\$ -	\$ (760,000)	\$ -	\$ -	\$ 6,570,000	\$ 780,000
Capital lease obligations.....	579,701	-	-	65,027	(178,768)	465,960	142,969
Compensated absences.....	379,000	-	-	142,000	(79,000)	442,000	104,000
Workers' compensation.....	56,000	-	-	-	(56,000)	-	-
Other postemployment benefits.....	11,795,542	-	-	3,053,792	-	14,849,334	-
Total.....	<u>\$ 20,140,243</u>	<u>\$ -</u>	<u>\$ (760,000)</u>	<u>\$ 3,260,819</u>	<u>\$ (313,768)</u>	<u>\$ 22,327,294</u>	<u>\$ 1,026,969</u>
Business-Type Activities:							
Long-term bonds.....	\$ 3,627,344	\$ 275,000	\$ (469,686)	\$ -	\$ -	\$ 3,432,658	\$ 502,186
Compensated absences.....	8,453	-	-	-	(8,453)	-	-
Other postemployment benefits.....	688,555	-	-	178,263	-	866,818	-
Total.....	<u>\$ 4,324,352</u>	<u>\$ 275,000</u>	<u>\$ (469,686)</u>	<u>\$ 178,263</u>	<u>\$ (8,453)</u>	<u>\$ 4,299,476</u>	<u>\$ 502,186</u>

The governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town classifies fund balance according to constraints imposed on the uses of those resources.

There are two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balances, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The Town’s highest level of decision making authority is the Town Council.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2014, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Middle/High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 596,120	\$ 596,120
Restricted for:				
Town revolving funds.....	-	-	898,887	898,887
Town gift and grant funds.....	-	-	174,400	174,400
School revolving funds.....	-	-	331,572	331,572
School gift and grant funds.....	-	-	124,855	124,855
Other capital projects.....	-	-	117,599	117,599
Cemetery perpetual care.....	-	-	15,323	15,323
Other permanent funds.....	-	-	82,681	82,681
Committed to:				
Capital outlay.....	555,387	-	-	555,387
Assigned to:				
Encumbrances:				
General government.....	7,222	-	-	7,222
Public safety.....	9,375	-	-	9,375
Education.....	230,030	-	-	230,030
Public works.....	90,164	-	-	90,164
Human services.....	5,833	-	-	5,833
Culture and recreation.....	2,172	-	-	2,172
Shared expenses.....	841	-	-	841
Employee benefits.....	15,408	-	-	15,408
Unassigned.....	<u>3,731,848</u>	<u>(1,044,687)</u>	<u>-</u>	<u>2,687,161</u>
TOTAL FUND BALANCES.....	\$ <u>4,648,280</u>	\$ <u>(1,044,687)</u>	\$ <u>2,341,437</u>	\$ <u>5,945,030</u>

In addition to the nonspendable fund balance, spendable fund balances are classified based on a hierarchy of spending constraints. Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any changes to the purpose of the fund along with any additions to or appropriations from the fund required a two-thirds vote of the legislative body. At year end the balance of the General Stabilization fund is \$580,868, the Capital Stabilization fund is \$400,161, and the Building Maintenance Stabilization fund is \$150,060. The balance of all three stabilization funds is reported as unassigned fund balance within the general fund. Interest earnings in each stabilization fund are as follows: \$833 – General Stabilization; \$161 – Capital Stabilization Fund; \$60 – Building Maintenance Stabilization Fund.

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Winthrop Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$4,967,000 for the year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Winthrop Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the System located at 1 Metcalf Square, Winthrop, Massachusetts, 02152.

At December 31, 2013, the System’s membership consisted of the following:

Plan Membership:	
Active members.....	186
Inactive members.....	40
Retirees and beneficiaries currently receiving benefits.....	<u>131</u>
 Total.....	 <u><u>357</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 9% of annual covered compensation and an additional 2% of regular compensation in excess of \$30,000. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding years apportionment of the annual pension cost between the two employers required the Town to contribute an average of 94% of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost – The Town’s contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$2,775,792, \$2,714,310 and \$2,667,251, respectively, which equaled its required contribution for each year. At June 30, 2014, the Town did not have a net pension obligation. The year 2014 required contribution was determined as part of the January 1, 2013 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases of 4.25%, 4.50% and 4.75% for grades 1, 2 and 4, respectively. The actuarial value of the System’s assets was determined using the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring 2 years ago, etc., so that 100% of gains or losses occurring 5 years ago are recognized. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. The System’s unfunded actuarial liability is being amortized as a 2% annual increasing basis to year 2029. The remaining amortization period at January 1, 2013 was 15 years.

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	\$ 43,816,970	\$ 62,687,986	\$ 18,871,016	69.9%	\$ 10,188,836	185.2%
01/01/11	41,833,511	57,190,013	15,356,502	73.1%	10,030,804	153.1%
01/01/09	33,143,983	52,659,365	19,515,382	62.9%	10,081,571	193.6%

NOTE 11 – RISK FINANCING

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. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town is self-insured for workers compensation related to the police and fire departments and has a premium based plan for all other departments. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2014, the amount of the liability of the workers' compensation claims is immaterial and is therefore not reported.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both the 415 active members and the 274 retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. All active and retired members receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC).

Funding Policy – Contribution requirements are established through agreements with Town employee unions, and in accordance with overall Town policy. Retirees contribute 10%-25% of the calculated contribution for health insurance and the remainder of the cost is funded by the Town. Retirees contribute 50% of the premiums for life insurance and the remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (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 #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 5,589,589
Interest on existing net OPEB obligation.....	499,364
Adjustments to annual required contribution.....	<u>(722,041)</u>
Annual OPEB cost (expense).....	5,366,912
Contributions made.....	<u>(2,134,857)</u>
Increase/Decrease in net OPEB obligation.....	3,232,055
Net OPEB obligation - beginning of year.....	<u>12,484,097</u>
Net OPEB obligation - end of year.....	<u>\$ 15,716,152</u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 5,366,912	40%	\$ 15,716,152
6/30/2013	4,589,076	47%	12,484,097
6/30/2012	4,418,304	47%	10,053,257

Funded Status and Funding Progress – The funded status of the plan as of the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
7/1/2013	\$ -	\$ 62,958,152	\$ 62,958,152	0%	\$ 19,953,536	315.5%
7/1/2010	-	50,004,256	50,004,256	0%	N/A	N/A
1/1/2007	-	49,693,455	49,693,455	0%	9,981,962	497.8%

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

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, actuarial liabilities were determined using the projected unit credit method. The actuarial assumptions included a 4% asset return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 9% initially, decreasing by 1% to an ultimate level of 5% and included a 3% inflation assumption. The UAAL is being amortized over a 30 year open period, with amortization payments increasing at 4% per year. The remaining amortization period at July 1, 2013 was 30 years.

NOTE 13 – COMMITMENTS

The Massachusetts School Building Authority voted in October 2013 to approve the Town's plans to build a new Winthrop High/Middle School. The Town residents voted on November 5, 2013 to approve an override related to the project. The plan is to tear down the existing high school and build a brand new facility that would house both a high school and middle school that would operate independently of one another. The Town has been approved to receive assistance from the Massachusetts School Building Authority for 59.97% of eligible construction costs. The total cost of the project will be approximately \$81,819,000, of which the Town's share of projected cost is \$42,614,000. Through June 30, 2014, the Town has spent \$4.1 million towards the project.

NOTE 14 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2014, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 15 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include the presentation of deferred outflows and inflows in the Statement of Net Position and Balance Sheet. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 25,390,655	\$ 25,390,655	\$ 25,495,302	\$ -	\$ 104,647
Tax liens.....	-	-	228,442	-	228,442
Motor vehicle excise taxes.....	1,301,535	1,301,535	1,754,978	-	453,443
Hotel, motel, and meals tax.....	182,500	182,500	218,234	-	35,734
Charges for service.....	240,000	240,000	280,774	-	40,774
Penalties and interest on taxes.....	50,000	50,000	278,498	-	228,498
Payments in lieu of taxes.....	5,000	5,000	5,646	-	646
Licenses and permits.....	475,000	475,000	705,225	-	230,225
Fines and forfeitures.....	9,000	9,000	5,670	-	(3,330)
Intergovernmental.....	11,422,972	11,422,972	11,483,477	-	60,505
Departmental and other.....	87,000	87,000	201,330	-	114,330
Investment income.....	30,000	30,000	47,435	-	17,435
Miscellaneous.....	79,000	79,000	82,085	-	3,085
TOTAL REVENUES.....	39,272,662	39,272,662	40,787,096	-	1,514,434
EXPENDITURES:					
Current:					
General government.....	2,058,886	1,851,272	1,783,705	7,222	60,345
Public safety.....	5,342,117	5,650,139	5,609,470	9,375	31,294
Education.....	17,422,716	17,422,716	17,192,684	230,030	2
Public works.....	2,300,892	2,361,548	2,367,767	90,164	(96,383)
Human services.....	361,872	411,872	401,722	5,833	4,317
Culture and recreation.....	479,871	469,871	466,668	2,172	1,031
Shared expenses.....	761,799	761,799	749,846	841	11,112
Pension benefits.....	2,594,128	2,594,128	2,591,384	-	2,744
Employee benefits.....	6,311,575	6,277,918	5,960,855	15,408	301,655
State and county charges.....	636,102	636,102	662,110	-	(26,008)
Capital outlay.....	732,697	1,326,406	770,930	555,387	89
Debt service:					
Principal.....	760,000	760,000	760,000	-	-
Interest.....	255,979	255,979	255,979	-	-
TOTAL EXPENDITURES.....	40,018,634	40,779,750	39,573,120	916,432	290,198
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(745,972)	(1,507,088)	1,213,976	(916,432)	1,804,632
OTHER FINANCING SOURCES (USES):					
Free cash voted to fund 2014 budget.....	200,000	1,519,162	-	-	(1,519,162)
Overlay surplus voted to fund 2014 budget.....	-	60,000	-	-	(60,000)
Prior year deficits raised on recap.....	(130,030)	(130,030)	-	-	130,030
Use of fund balance to fund prior year carryforwards.....	319,436	319,436	-	-	(319,436)
Transfers in.....	356,566	781,882	826,114	-	44,232
Transfers out.....	-	(1,043,362)	(1,043,362)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	745,972	1,507,088	(217,248)	-	(1,724,336)
NET CHANGE IN FUND BALANCE.....	-	-	996,728	(916,432)	80,296
BUDGETARY FUND BALANCE, Beginning of year.....	2,445,570	2,445,570	2,445,570	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 2,445,570	\$ 2,445,570	\$ 3,442,298	\$ (916,432)	\$ 80,296

See notes to required supplementary information.

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

WINTHROP CONTRIBUTORY 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	\$ 43,816,970	\$ 62,687,986	\$ 18,871,016	69.9%	\$ 10,188,836	185.2%
01/01/11	41,833,511	57,190,013	15,356,502	73.1%	10,030,804	153.1%
01/01/09	33,143,983	52,659,365	19,515,382	62.9%	10,081,571	193.6%
01/01/07	33,286,529	47,942,472	14,655,943	69.4%	9,981,965	146.8%

The Town's share of the UAAL, as of January 1, 2013, is approximately 94.12%.

See notes to required supplementary information.

WINTHROP CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year Ended December 31	System Wide			Town of Winthrop	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2013	\$ 2,955,261	\$ 2,955,261	100%	\$ 2,775,792	93.93%
2012	2,884,000	2,884,000	100%	2,714,310	94.12%
2011	2,840,446	2,840,446	100%	2,667,251	93.90%
2010	2,641,070	2,641,070	100%	2,495,230	94.48%
2009	2,641,070	2,641,070	100%	2,531,405	95.85%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2013	\$ -	\$ 62,958,152	\$ 62,958,152	0%	\$ 19,953,356	315.5%
7/1/2010	-	50,004,256	50,004,256	0%	N/A	N/A
1/1/2007	-	49,693,455	49,693,455	0%	9,981,962	497.8%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2014	\$ 5,589,589	\$ 2,134,857	38%
2013	4,496,321	2,158,236	48%
2012	4,418,412	2,096,751	47%
2011	4,269,901	1,983,092	46%
2010	4,449,708	1,845,210	41%
2009	4,660,924	1,820,527	39%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2013
Actuarial cost method.....	Project Unit Credit
Amortization method.....	Level dollar amortization over 30 years, open
Remaining amortization period.....	30 years at July 1, 2013
Asset valuation method.....	Market Value

Actuarial Assumptions:

Investment rate of return.....	4.00%
Inflation rate.....	3.00%
Medical/drug cost trend rate.....	9% graded to 5% over five years to an ultimate level of 5%

Plan Membership:

Current retirees, beneficiaries, and dependents.....	274
Current active members.....	<u>415</u>
Total.....	<u><u>689</u></u>

See notes to required supplementary information.

NOTE A – BUDGETARY BASIS OF ACCOUNTING1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Council. The Town Manager presents an annual budget to Town Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Town Council approval at a regular Council meeting.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Town Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2014 approved budget authorized \$40 million in appropriations and other amounts to be raised. During 2014, the Town Council approved \$1.8 million of supplemental appropriations; the majority of this being \$1 million of transfers to stabilization funds, as well as \$594,000 to fund capital articles within the general fund.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2014, is presented below:

Net change in fund balance - budgetary basis.....	\$	996,728
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		602,741
<u>Basis of accounting differences:</u>		
Net change in revenue accruals.....		(216,965)
Increase in revenue due to on-behalf payments.....		4,967,000
Increase in expenditures due to on-behalf payments.....		<u>(4,967,000)</u>
Net change in fund balance - GAAP basis.....	\$	<u>1,382,504</u>

3. Excess of Expenditures over Appropriations

For the year ended June 30, 2014, actual expenditures exceeded appropriations for snow and ice (public works), as well as state and county charges. These over-expenditures are allowable and will be funded in 2014 through real estate taxes and other available funds.

NOTE B – PENSION PLAN

The Town contributes to the Winthrop Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Winthrop Contributory Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The Town is required to pay into the Retirement System its share of the system wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers. Additionally, all active and retired members and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.