

**TOWN OF TOWNSEND, MASSACHUSETTS**

**Annual Financial Statements**

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Townsend, Massachusetts

**Additional Offices:**

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Townsend, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

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

*Melanson Heath*

June 30, 2015

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

As management of the Town of Townsend, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. **Unless otherwise noted, all amounts are expressed in thousands.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$38,392 (i.e., net position), a change of \$44 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,957, a change of \$70 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,200, a change of \$84 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$3,901, a change of \$(533) in comparison to the prior year.

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

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

	<b><u>NET POSITION</u></b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 6,999	\$ 7,081	\$ 1,837	\$ 1,752	\$ 8,836	\$ 8,833
Capital assets	<u>30,549</u>	<u>31,240</u>	<u>3,965</u>	<u>3,856</u>	<u>34,514</u>	<u>35,096</u>
Total assets	37,548	38,321	5,802	5,608	43,350	43,929
Long-term liabilities outstanding	3,075	3,556	1,287	1,390	4,362	4,946
Other liabilities	<u>522</u>	<u>583</u>	<u>73</u>	<u>52</u>	<u>595</u>	<u>635</u>
Total liabilities	3,597	4,139	1,360	1,442	4,957	5,581
Net position:						
Net investment in capital assets	28,048	28,175	2,649	2,466	30,697	30,641
Restricted	1,662	1,599	-	-	1,662	1,599
Unrestricted	<u>4,241</u>	<u>4,409</u>	<u>1,793</u>	<u>1,699</u>	<u>6,034</u>	<u>6,108</u>
Total net position	<u>\$ 33,951</u>	<u>\$ 34,183</u>	<u>\$ 4,442</u>	<u>\$ 4,165</u>	<u>\$ 38,393</u>	<u>\$ 38,348</u>

**CHANGES IN NET POSITION**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,001	\$ 879	\$ 1,104	\$ 1,060	\$ 2,105	1,939
Operating grants and contributions	388	298	-	-	388	298
Capital grants and contributions	480	134	-	-	480	134
General revenues:						
Property taxes	14,406	13,986	-	-	14,406	13,986
Excises	1,011	1,030	-	-	1,011	1,030
Penalties and interest on taxes	231	228	-	-	231	228
Grants and contributions not restricted to specific programs	1,384	1,318	-	-	1,384	1,318
Investment income	48	31	-	21	48	52
Other	13	84	-	-	13	84
	<u>18,962</u>	<u>17,988</u>	<u>1,104</u>	<u>1,081</u>	<u>20,066</u>	<u>19,069</u>
Total revenues						
Expenses:						
General government	2,367	2,056	-	-	2,367	2,056
Public safety	4,120	3,637	-	-	4,120	3,637
Education	9,544	9,445	-	-	9,544	9,445
Public works	1,627	1,466	-	-	1,627	1,466
Sanitation	735	753	-	-	735	753
Human services	333	255	-	-	333	255
Culture and recreation	435	415	-	-	435	415
Interest on long-term debt	102	128	-	-	102	128
Intergovernmental	69	68	-	-	69	68
Water operations	-	-	689	640	689	640
	<u>19,332</u>	<u>18,223</u>	<u>689</u>	<u>640</u>	<u>20,021</u>	<u>18,863</u>
Total expenses						
Change in net assets before transfers	(370)	(235)	415	441	45	206
Transfers in (out)	<u>138</u>	<u>135</u>	<u>(138)</u>	<u>(135)</u>	<u>-</u>	<u>-</u>
Change in net position	(232)	(100)	277	306	45	206
Net position - beginning of year	<u>34,183</u>	<u>34,283</u>	<u>4,165</u>	<u>3,859</u>	<u>38,348</u>	<u>38,142</u>
Net position - end of year	<u>\$ 33,951</u>	<u>\$ 34,183</u>	<u>\$ 4,442</u>	<u>\$ 4,165</u>	<u>\$ 38,393</u>	<u>\$ 38,348</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$38,393, a change of \$45 from the prior year.

The largest portion of net position, \$30,697, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$1,662, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$6,034, may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(232). Key elements of this change are as follows:

General fund deficiency before transfers	\$ (536)
Enterprise fund indirect costs	138
Capital asset additions from current revenues	628
Depreciation expense in excess of principal debt service	(817)
Special revenue fund revenues in excess of expenditures (primarily ambulance fund)	424
Other	<u>(69)</u>
Total	<u>\$ (232)</u>

**Business-type activities.** Business-type activities (Water fund) for the year resulted in a change in net position of \$277.

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,957, a change of \$70 in comparison to the prior year. Key elements of this change are as follows:

General fund deficiency before transfers	\$ (536)
Enterprise fund indirect costs	138
Special revenue fund revenues in excess of expenditures	424
Capital project fund revenues in excess of expenditures	48
Expendable trust fund expenditures in excess of revenues	(7)
Nonexpendable trust fund revenue	<u>3</u>
Total	<u>\$ 70</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,200, while total fund balance was \$3,296. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,200	\$ 2,116	\$ 84	12.2%
Total fund balance	\$ 3,296	\$ 3,186	\$ 110	18.3%

The total fund balance of the general fund changed by \$110 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (713)
Revenues in excess of budget	434
Expenditures less than budget	287
Change in encumbrances	103
Change in stabilization accounts	6
Other	<u>(7)</u>
Total	<u>\$ 110</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization (Unassigned)	\$ 1,070	\$ 1,067	\$ 3
Capital stabilization (Committed)	<u>618</u>	<u>615</u>	<u>3</u>
Total	<u>\$ 1,688</u>	<u>\$ 1,682</u>	<u>\$ 6</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,793, a change of \$94 in comparison to the prior year.

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

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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$276. Major reasons for these amendments include:

- \$208 increase related to the snow and ice appropriations
- \$68 other various appropriations

These increases were funded from free cash.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$34,514 (net of accumulated depreciation), a change of \$(582) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

### **Governmental activities:**

- \$594 Various street improvements
- \$47 Police cruisers
- \$58 public safety equipment
- \$60 Financial software

### **Business-type activities:**

The Water fund did not capitalize any new assets during fiscal year 2014.

Additional information on capital assets can be found in the notes to the financial statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$3,901, all of which was backed by the full faith and credit of the government.

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

### **REQUESTS FOR INFORMATION**

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

Town Administrator  
Memorial Hall, Upper Level  
272 Main Street  
Townsend, Massachusetts 01469

TOWN OF TOWNSEND, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 5,417,488	\$ 1,492,619	\$ 6,910,107
Receivables, net of allowance for uncollectibles:			
Property taxes	484,880	-	484,880
Excises	79,843	-	79,843
User fees	-	344,650	344,650
Departmental and other	417,774	-	417,774
Other assets	2,569	-	2,569
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	596,502	-	596,502
Capital assets, net of accumulated depreciation	26,740,350	3,080,733	29,821,083
Capital assets, not being depreciated	<u>3,808,539</u>	<u>884,072</u>	<u>4,692,611</u>
<b>TOTAL ASSETS</b>	<b>37,547,945</b>	<b>5,802,074</b>	<b>43,350,019</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	302,631	47,623	350,254
Accrued liabilities	12,945	21,529	34,474
Notes payable	150,000	-	150,000
Other current liabilities	55,638	4,664	60,302
Current portion of long-term liabilities:			
Bonds payable	419,334	105,032	524,366
Landfill	18,500	-	18,500
Capital leases	40,530	-	40,530
Noncurrent:			
Bonds payable, net of current portion	2,194,717	1,181,642	3,376,359
Landfill, net of current portion	<u>403,000</u>	<u>-</u>	<u>403,000</u>
<b>TOTAL LIABILITIES</b>	<b>3,597,295</b>	<b>1,360,490</b>	<b>4,957,785</b>
<b>NET POSITION</b>			
Net investment in capital assets	28,048,438	2,648,886	30,697,324
Restricted for:			
Grants and other statutory restrictions	1,239,026	-	1,239,026
Permanent funds:			
Nonexpendable	304,943	-	304,943
Expendable	117,424	-	117,424
Unrestricted	<u>4,240,819</u>	<u>1,792,698</u>	<u>6,033,517</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>33,950,650</u></b>	<b>\$ <u>4,441,584</u></b>	<b>\$ <u>38,392,234</u></b>

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



TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 3,517,396	\$ 1,900,092	\$ 5,417,488
Receivables:			
Property taxes	1,293,812	-	1,293,812
Excises	110,738	-	110,738
Departmental and other	-	417,774	417,774
Other assets	<u>2,469</u>	<u>100</u>	<u>2,569</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,924,415</u></b>	<b><u>\$ 2,317,966</u></b>	<b><u>\$ 7,242,381</u></b>
<b>LIABILITIES</b>			
Warrants payable	\$ 244,233	\$ 58,398	\$ 302,631
Notes payable	-	150,000	150,000
Other liabilities	<u>25,237</u>	<u>30,401</u>	<u>55,638</u>
<b>TOTAL LIABILITIES</b>	<b>269,470</b>	<b>238,799</b>	<b>508,269</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>1,359,103</b>	<b>417,774</b>	<b>1,776,877</b>
<b>FUND BALANCES</b>			
Nonspendable	2,469	304,943	307,412
Restricted	13,115	1,467,636	1,480,751
Committed	1,018,211	-	1,018,211
Assigned	62,052	-	62,052
Unassigned	<u>2,199,995</u>	<u>(111,186)</u>	<u>2,088,809</u>
<b>TOTAL FUND BALANCES</b>	<b><u>3,295,842</u></b>	<b><u>1,661,393</u></b>	<b><u>4,957,235</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>	<b><u>\$ 4,924,415</u></b>	<b><u>\$ 2,317,966</u></b>	<b><u>\$ 7,242,381</u></b>

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

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

JUNE 30, 2014

<b>Total governmental fund balances</b>	\$ 4,957,235
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,548,889
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,533,552
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(12,945)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(3,076,081)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 33,950,650</u></u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 14,424,735	\$ -	\$ 14,424,735
Excises	1,061,997	-	1,061,997
Penalties, interest and other taxes	230,642	-	230,642
Charges for services	197,237	623,954	821,191
Intergovernmental	1,411,766	874,588	2,286,354
Licenses and permits	154,650	-	154,650
Investment income	22,220	17,949	40,169
Miscellaneous	<u>274</u>	<u>33,489</u>	<u>33,763</u>
Total Revenues	17,503,521	1,549,980	19,053,501
<b>Expenditures:</b>			
Current:			
General government	1,310,304	137,337	1,447,641
Public safety	2,994,257	292,610	3,286,867
Education	9,544,256	-	9,544,256
Public works	984,812	496,065	1,480,877
Sanitation	618,397	-	618,397
Health and human services	224,924	55,003	279,927
Culture and recreation	235,504	101,600	337,104
Employee benefits	1,524,642	-	1,524,642
Debt service	532,953	-	532,953
Intergovernmental	<u>69,262</u>	<u>-</u>	<u>69,262</u>
Total Expenditures	<u>18,039,311</u>	<u>1,082,615</u>	<u>19,121,926</u>
Excess (deficiency) of revenues over expenditures	(535,790)	467,365	(68,425)
<b>Other Financing Sources (Uses):</b>			
Transfers in	675,099	-	675,099
Transfers out	<u>(29,245)</u>	<u>(507,759)</u>	<u>(537,004)</u>
Total Other Financing Sources (Uses)	<u>645,854</u>	<u>(507,759)</u>	<u>138,095</u>
Change in fund balance	110,064	(40,394)	69,670
Fund Equity, at Beginning of Year	<u>3,185,778</u>	<u>1,701,787</u>	<u>4,887,565</u>
Fund Equity, at End of Year	<u>\$ 3,295,842</u>	<u>\$ 1,661,393</u>	<u>\$ 4,957,235</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2014

<b>Net changes in fund balances - Total governmental funds</b>	<b>\$ 69,670</b>												
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">627,985</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,300,919)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(92,274)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">484,071</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">1,819</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(22,830)</u></td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	627,985	Depreciation	(1,300,919)		(92,274)	Repayments of debt	484,071		1,819		<u>(22,830)</u>
Capital outlay purchases, net of disposals	627,985												
Depreciation	(1,300,919)												
	(92,274)												
Repayments of debt	484,071												
	1,819												
	<u>(22,830)</u>												
<b>Change in net position of governmental activities</b>	<b><u><u>\$ (232,478)</u></u></b>												

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

TOWN OF TOWNSEND, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 14,432,073	\$ 14,432,073	\$ 14,432,073	\$ -
Excise	941,000	941,000	1,061,997	120,997
Penalties, interest and other taxes	68,675	68,675	230,642	161,967
Charges for services	92,042	92,042	197,346	105,304
Intergovernmental	1,412,132	1,412,132	1,411,766	(366)
Licenses and permits	93,000	93,000	154,650	61,650
Investment income	-	-	17,495	17,495
Miscellaneous	26,666	26,666	165	(26,501)
Transfers in	1,080,045	1,080,045	1,073,599	(6,446)
Use of free cash	437,522	713,319	713,319	-
Total Revenues and Other Sources	18,583,155	18,858,952	19,293,052	434,100
<b>Expenditures and Other Uses:</b>				
General government	1,451,493	1,507,501	1,351,102	156,399
Public safety	3,084,870	3,097,570	3,051,799	45,771
Education	9,544,256	9,544,256	9,544,256	-
Public works	780,642	987,731	984,812	2,919
Sanitation	625,198	625,198	618,397	6,801
Health and human services	230,207	230,207	220,430	9,777
Culture and recreation	238,048	238,048	235,504	2,544
Debt service	570,099	570,099	562,198	7,901
Intergovernmental	67,962	67,962	69,262	(1,300)
Employee benefits	1,590,380	1,590,380	1,533,314	57,066
Transfers out	400,000	400,000	400,000	-
Total Expenditures and Other Uses	18,583,155	18,858,952	18,571,074	287,878
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 721,978	\$ 721,978

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Water Fund</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 1,492,619
User fees, net of allowance for uncollectibles	<u>344,650</u>
Total current assets	1,837,269
Noncurrent:	
Capital assets, net of accumulated depreciation	3,080,733
Capital assets, not being depreciated	<u>884,072</u>
Total noncurrent assets	<u>3,964,805</u>
<b>TOTAL ASSETS</b>	5,802,074
<b>LIABILITIES</b>	
Current:	
Warrants payable	47,623
Accrued liabilities	21,529
Other current liabilities	4,664
Current portion of long-term liabilities:	
Bonds payable	<u>105,032</u>
Total current liabilities	178,848
Noncurrent:	
Bonds payable, net of current portion	<u>1,181,642</u>
Total noncurrent liabilities	<u>1,181,642</u>
<b>TOTAL LIABILITIES</b>	1,360,490
<b>NET POSITION</b>	
Net investment in capital assets	2,648,886
Unrestricted	<u>1,792,698</u>
<b>TOTAL NET POSITION</b>	<u>\$ 4,441,584</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Water Fund
<b>Operating Revenues:</b>	
Charges for services	\$ 1,103,881
Total Operating Revenues	1,103,881
<b>Operating Expenses:</b>	
Personnel services	245,324
Non-personnel services	298,094
Depreciation	117,492
Total Operating Expenses	660,910
Operating Income	442,971
<b>Nonoperating Revenues (Expenses):</b>	
Investment income	-
Interest expense	(28,275)
Total Nonoperating Revenues (Expenses), Net	(28,275)
Income Before Transfers	414,696
<b>Transfers:</b>	
Transfers in	29,245
Transfers out	(167,340)
Change in Net Position	276,601
Net Position at Beginning of Year	4,164,983
Net Position at End of Year	\$ 4,441,584

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 1,055,539
Payments to vendors and employees	<u>(519,880)</u>
Net Cash Provided By Operating Activities	535,659
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>	
Transfers in	29,245
Transfers out	<u>(167,340)</u>
Net Cash (Used for) Noncapital Financing Activities	(138,095)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(226,499)
Principal payments on bonds and notes	(103,415)
Interest expense	<u>(28,275)</u>
Net Cash (Used For) Provided By Capital and Related Financing Activities	<u>(358,189)</u>
Net Change in Cash and Short-Term Investments	39,375
Cash and Short-Term Investments, Beginning of Year	<u>1,453,244</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,492,619</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income	\$ 442,971
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	117,492
Changes in assets and liabilities:	
User fees	(48,342)
Other assets	1,111
Warrants payable	23,927
Accrued liabilities	<u>(1,500)</u>
Net Cash Provided By Operating Activities	<u>\$ 535,659</u>

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

TOWN OF TOWNSEND, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>140,383</u>	\$ <u>325,778</u>
Total Assets	140,383	325,778
<b><u>LIABILITIES AND NET POSITION</u></b>		
Warrants payable	-	258
Other liabilities	<u>-</u>	<u>325,520</u>
Total Liabilities	<u>-</u>	<u>325,778</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u><u>140,383</u></u>	\$ <u><u>-</u></u>

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

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

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 100
Interest income	<u>2,855</u>
Total additions	2,955
<b>Deductions:</b>	
Education	500
Health and human services	<u>8,360</u>
Total deductions	<u>8,860</u>
Net decrease	(5,905)
<b>Net position:</b>	
Beginning of year	<u>146,288</u>
End of year	<u><u>\$ 140,383</u></u>

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

# TOWN OF TOWNSEND, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

##### Government-wide Financial Statements

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

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

##### Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and

services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water fund* is used to account for the Town's water operations.

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

The *agency fund* is custodial in nature and is used to account for funds held for others.

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

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

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

For purpose of the Statement of Cash Flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### E. Investments

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

*F. Property Tax Limitations*

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$58,838.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	5 - 40
Machinery and equipment	3 - 10
Vehicles	5
Library books	10
Software	3

*H. Compensated Absences*

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. *Use of Estimates*

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

2. **Stewardship, Compliance, and Accountability**

A. *Budgetary Information*

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

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

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

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

**B. Budgetary Basis**

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

**C. Budget/GAAP Reconciliation**

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 17,503,521	\$ 18,039,311
Other financing sources/uses (GAAP Basis)	<u>675,099</u>	<u>29,245</u>
Subtotal (GAAP Basis)	18,178,620	18,068,556
Adjust tax revenue to accrual basis	7,338	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(319,616)
Add end-of-year appropriation carryforwards from expenditures	-	422,134
To record use of free cash	713,319	-
To reverse the effect of non- budgeted Stabilization activity	<u>393,775</u>	<u>400,000</u>
Budgetary Basis	<u>\$ 19,293,052</u>	<u>\$ 18,571,074</u>

**D. Deficit Fund Equity**

The Town's special revenue funds reflect various individual deficit fund balance accounts, which will be funded by future receipts.

### 3. Cash and Short-Term Investments

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

As of June 30, 2014, \$5,906,288 of the Town's bank balance of \$7,514,361 was exposed to custodial credit risk as uninsured or uncollateralized.

### 4. Taxes Receivable

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

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

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

Real Estate		
2014	\$ 314	
2013	197	
2012	<u>83</u>	
		594
Personal Property		
2014	5	
2013	2	
2012	<u>7</u>	
		14
Tax Liens		657
Deferred Taxes		<u>29</u>
Total		<u>\$ 1,294</u>

**5. Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 146	\$ -
Tax liens	67	-
Excises	31	-
Utilities	-	9

**6. Transfers In/Out**

The Town's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them. The transfers from the water and sewer funds to the general fund are made to cover indirect costs of water and sewer funds incurred in the general fund.

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 675,099	\$ 29,245
Nonmajor Governmental Funds:		
Title V betterments	-	27,734
Ambulance receipts reserved	-	364,000
Cemetery - sale of lots	-	4,425
WTRR receipts reserved	-	12,386
Cable access	-	30,000
Grants	-	69,214
Enterprise Funds:		
Water	<u>29,245</u>	<u>167,340</u>
Total	<u>\$ 704,344</u>	<u>\$ 704,344</u>

## 7. Capital Assets

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 22,804	\$ -	\$ -	\$ 22,804
Capital improvements (other than buildings)	666	-	-	666
Machinery, equipment, and furnishings	4,632	118	(23)	4,727
Vehicles	1,129	47	(88)	1,088
Library books	520	-	-	520
Infrastructure	<u>10,310</u>	<u>463</u>	<u>-</u>	<u>10,773</u>
Total capital assets, being depreciated	40,061	628	(111)	40,578
Less accumulated depreciation for:				
Buildings and improvements	(3,830)	(578)	-	(4,408)
Capital improvements (other than buildings)	(277)	(25)	-	(302)
Machinery, equipment, and furnishings	(3,316)	(369)	8	(3,677)
Vehicles	(1,002)	(73)	85	(990)
Library books	(349)	(29)	-	(378)
Infrastructure	<u>(3,856)</u>	<u>(227)</u>	<u>-</u>	<u>(4,083)</u>
Total accumulated depreciation	<u>(12,630)</u>	<u>(1,301)</u>	<u>93</u>	<u>(13,838)</u>
Total capital assets, being depreciated, net	27,431	(673)	(18)	26,740
Capital assets, not being depreciated:				
Land	3,454	-	-	3,454
Art and historical treasures	55	-	-	55
Construction in progress	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>
Total capital assets, not being depreciated	<u>3,809</u>	<u>-</u>	<u>-</u>	<u>3,809</u>
Governmental activities capital assets, net	<u>\$ 31,240</u>	<u>\$ (673)</u>	<u>\$ (18)</u>	<u>\$ 30,549</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,694	\$ -	\$ -	\$ 1,694
Capital improvements (other than buildings)	694	-	-	694
Machinery, equipment, and furnishings	315	34	-	349
Infrastructure	<u>2,129</u>	<u>-</u>	<u>-</u>	<u>2,129</u>
Total capital assets, being depreciated	4,832	34	-	4,866
Less accumulated depreciation for:				
Buildings and improvements	(347)	(40)	-	(387)
Capital improvements (other than buildings)	(309)	(14)	-	(323)
Machinery, equipment, and furnishings	(263)	(22)	-	(285)
Infrastructure	<u>(749)</u>	<u>(41)</u>	<u>-</u>	<u>(790)</u>
Total accumulated depreciation	<u>(1,668)</u>	<u>(117)</u>	<u>-</u>	<u>(1,785)</u>
Total capital assets, being depreciated, net	3,164	(83)	-	3,081
Capital assets, not being depreciated:				
Land	662	-	-	662
Construction in progress	<u>30</u>	<u>192</u>	<u>-</u>	<u>222</u>
Total capital assets, not being depreciated	<u>692</u>	<u>192</u>	<u>-</u>	<u>884</u>
Business-type activities capital assets, net	<u>\$ 3,856</u>	<u>\$ 109</u>	<u>\$ -</u>	<u>\$ 3,965</u>

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

Governmental Activities:	
General government	\$ 586
Public safety	339
Public works	347
Culture and recreation	<u>29</u>
Total depreciation expense - governmental activities	<u>\$ 1,301</u>
Business-Type Activities:	
Water	<u>\$ 117</u>
Total depreciation expense - business-type activities	<u>\$ 117</u>

## 8. Warrants Payable

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

## 9. Long-Term Debt

### A. General Obligation Bonds

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

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
	<u>Through</u>		as of
<u>Governmental Activities:</u>			<u>6/30/14</u>
Title V	08/01/19	5.375-5.50%	\$ 64,894
Public buildings	06/15/22	4.25-5.00%	355,000
Land acquisition I	06/15/22	4.50-5.00%	200,000
Land acquisition II	06/15/19	4.50-5.00%	45,000
Landfill closure I	06/15/24	4.25-5.00%	650,000
Landfill closure II (72%)	06/15/24	4.25-5.00%	230,400
Title V	08/01/22	5.00-5.25%	65,408
Title V	07/15/27	0.00%	133,349
Memorial Hall - refunding	07/15/27	2.00-3.00%	400,000
Land acquisition - refunding	07/15/27	2.00-3.00%	40,000
Fire truck	07/15/27	2.00-3.00%	<u>430,000</u>
Total Governmental Activities:			<u>\$ 2,614,051</u>

<u>Business-Type Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/14</u>
Water pumping station	07/15/25	2.00%	\$ 452,083
Water improvements - East Side	07/15/26	2.00%	704,991
Witch's Brook water company (Landfill closure II - 28%)	06/15/24	4.25-5.00%	89,600
Water - refunding	12/17/17	2.00-3.00%	<u>40,000</u>
Total Business-Type Activities:			<u>\$ 1,286,674</u>

**B. Future Debt Service**

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 419,334	\$ 97,976	\$ 517,310
2016	419,138	83,229	502,367
2017	374,138	66,952	441,090
2018	374,138	53,562	427,700
2019	249,138	44,375	293,513
2020 - 2024	740,066	78,715	818,781
2025 - 2029	<u>38,099</u>	<u>3,763</u>	<u>41,862</u>
Total	<u>\$ 2,614,051</u>	<u>\$ 428,572</u>	<u>\$ 3,042,623</u>

The general fund has been designated as the source to repay the general obligation long-term debt outstanding as of June 30, 2014:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 105,032	\$ 27,795	\$ 132,827
2016	101,681	25,476	127,157
2017	103,364	23,118	126,482
2018	100,080	20,775	120,855
2019	96,831	18,150	114,981
2020 - 2024	517,285	56,666	573,951
2025 - 2028	<u>262,401</u>	<u>7,326</u>	<u>269,727</u>
Total	<u>\$ 1,286,674</u>	<u>\$ 179,306</u>	<u>\$ 1,465,980</u>

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

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

	Total Balance <u>7/1/13</u>	Additions	Reductions	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 3,044	\$ -	(430)	\$ 2,614	\$ (419)	\$ 2,195
Other:						
Landfill closure	417	23	(19)	421	(19)	402
Capital leases	95	-	(55)	40	(40)	-
Totals	<u>\$ 3,556</u>	<u>\$ 23</u>	<u>\$ (504)</u>	<u>\$ 3,075</u>	<u>\$ (478)</u>	<u>\$ 2,597</u>
<u>Business-Type Activities</u>						
Bonds payable	<u>\$ 1,390</u>	<u>\$ -</u>	<u>\$ (103)</u>	<u>\$ 1,287</u>	<u>\$ (105)</u>	<u>\$ 1,182</u>
Totals	<u>\$ 1,390</u>	<u>\$ -</u>	<u>\$ (103)</u>	<u>\$ 1,287</u>	<u>\$ (105)</u>	<u>\$ 1,182</u>

**10. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date.

The \$421,500 reported as landfill closure and postclosure care liability at June 30, 2014 represents that cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill.

**11. Deferred Inflows of Resources**

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

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

	<u>Fund Basis</u>	
	Governmental Funds	
	<u>General</u>	<u>Nonmajor</u>
Unavailable property taxes	\$ 1,249	\$ -
Unavailable excise taxes	110	-
Unavailable betterments	-	215
Unavailable ambulance revenue	-	203
Total	<u>\$ 1,359</u>	<u>\$ 418</u>

## 12. Restricted Net Position

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

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

## 13. Governmental Funds - Balances

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

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

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

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes

general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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

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

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

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Prepaid expenditures	\$ 2,469	\$ -	\$ 2,469
Nonexpendable permanent funds	-	304,943	304,943
Total Nonspendable	2,469	304,943	307,412
Restricted			
Debt service	13,115	-	13,115
Capital projects	-	114,581	114,581
Special revenue funds	-	1,235,631	1,235,631
Expendable permanent funds	-	117,424	117,424
Total Restricted	13,115	1,467,636	1,480,751
Committed			
Capital (stabilization)	617,971	-	617,971
For continuing appropriations:			
General government	140,499	-	140,499
Public safety	150,380	-	150,380
Public works	100,000	-	100,000
Employee benefits	9,361	-	9,361
Total Committed	1,018,211	-	1,018,211
Assigned			
For encumbrances:			
General government	13,542	-	13,542
Public safety	2,794	-	2,794
Public works	500	-	500
Employee benefits	4,867	-	4,867
For next year's expenditures	40,349	-	40,349
Total Assigned	62,052	-	62,052
Unassigned - unrestricted stabilization	1,070,347	-	1,070,347
Unassigned	1,129,648	(111,186)	1,018,462
Total Unassigned	2,199,995	(111,186)	2,088,809
Total Fund Balance	\$ 3,295,842	\$ 1,661,393	\$ 4,957,235

## 14. **Commitments and Contingencies**

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

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

## 15. **Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

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

#### *A. Plan Description*

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2014, the actuarial valuation date, approximately 1 retirees and 50 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

#### *B. Benefits Provided*

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 37,090
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	37,090
Contributions made	(37,090)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 37,090	100%	\$ -
2013	\$ 12,540	100%	\$ -
2012	\$ 12,540	100%	\$ -
2011	\$ 11,400	100%	\$ -
2010	\$ 11,400	100%	\$ -

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

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 275,210
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 275,210</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 4,123,366</u>
UAAL as a percentage of covered payroll	<u>6.67%</u>

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

*F. Actuarial Methods and Assumptions*

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

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 8.5%, which decreases to a 4.5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

## 16. Pension Plan

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

### A. Plan Description

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

### B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$633,967, \$465,246, and \$454,061, respectively, which were equal to its annual required contributions for each of these years. The payroll for employees covered by the System for the year ended June 30, 2014 was not available.

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

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

### D. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is

funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

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

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

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

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

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

**17. Risk Management**

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

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

**June 30, 2014  
(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/14	\$ -	\$ 275,210	\$ 275,210	0.0%	\$ 4,123,366	6.7%
06/30/11	\$ -	\$ 176,000	\$ 176,000	0.0%	N/A	N/A

**MIDDLESEX COUNTY RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)**

**Employees' Retirement System  
Schedule of Funding Progress  
(in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$ 862,323	\$ 1,974,144	\$ 1,111,821	43.7%	\$ 393,100	282.8%
01/01/10	\$ 819,987	\$ 1,743,581	\$ 923,594	47.0%	\$ 384,933	239.9%
01/01/08	\$ 774,863	\$ 1,529,806	\$ 754,943	50.7%	\$ 360,206	209.6%
01/01/06	\$ 653,156	\$ 1,223,828	\$ 570,672	53.4%	\$ 330,999	172.4%
01/01/04	\$ 599,699	\$ 1,020,828	\$ 421,129	58.7%	\$ 306,025	137.6%

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

Plan Year-end	System Wide			Town of Townsend	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 83,370	\$ 83,370	100%	\$ 634	0.8%
12/31/12	\$ 81,701	\$ 81,701	100%	\$ 465	0.6%
12/31/11	\$ 78,100	\$ 78,100	100%	\$ 454	0.6%

See Independent Auditors' Report.