

TOWN OF GROTON, MASSACHUSETTS

Financial Statements

June 30, 2014

and Electric Light Enterprise Fund as of December 31, 2013

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Groton, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2014
and Electric Light Enterprise Fund as of December 31, 2013
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INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Groton
173 Main Street
Groton, MA 01450

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 Groton, Massachusetts as of and for the year ended June 30, 2014 (December 31, 2013 for the Groton Electric Light Enterprise Fund), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Groton, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Groton Electric Light Enterprise Fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Groton Electric Light Enterprise Fund, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Groton, Massachusetts as of June 30, 2014 (and the Groton Electric Light Enterprise Fund as of December 31, 2013) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity 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, the budgetary statement, the retirement system schedules and the other post employment benefit schedules 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated February 23, 2015, on our consideration of the Town of Groton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Groton's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
February 23, 2015

Town of Groton, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2014

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

Financial Statements Reporting Model

The Town of Groton, Massachusetts has implemented GASB 34 (Governmental Accounting Standards Board Statement number 34). This statement requires all governments to account for and report capital assets in its Financial Statements. In addition, GASB 34 establishes new criteria on the form and content of governmental financial statements and makes changes to the audited financial statements and the accounting methods used to generate the amounts. These changes are explained below and are also further explained in the "Notes to the Financial Statements". Please refer to the Table of Contents at the very beginning of these Financial Statements for a summary of where the information explained here is presented in these Financial Statements.

One of the changes created by the GASB 34 Reporting Model relates to the addition of two new financial statements. These financial statements are called Government-wide Financial Statements. The first statement is called the Statement of Net Position and the second one is called the Statement of Activities. A description of these Government-wide Financial Statements is provided below and additional information about them can be found in the "Notes to the Financial Statements".

This "Management's Discussion and Analysis" is intended to serve as an introduction to the Town of Groton, Massachusetts's June 30, 2014 basic financial statements. The Town of Groton, Massachusetts's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Highlights

- The assets of the Town of Groton, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$69,731,939 (*net position*). Of this amount \$1,659,172 (*unrestricted net position*) may be used to meet government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,279,021, or 11 percent of total general fund expenditures.
- The Town of Groton, Massachusetts' total debt decreased by \$1,641,883 during the current year. The decrease was the result of the principal payments.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Groton, Massachusetts' finances, in a manner similar to private-sector business.

The *Statement of Net Position* presents information on all of the Town of Groton, Massachusetts' assets and liabilities, with the differences 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 of the Town of Groton, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 of 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).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for water, sewer and electric light. User fees charged to the customers receiving services finance these activities.

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

Proprietary funds. The Town of Groton, Massachusetts maintains three proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the

government-wide financial statements. The Town of Groton, Massachusetts uses enterprise funds to account for its Water, Sewer and Electric Light operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Electric Light operations.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the Statement of Net Position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the Governmental funds balance sheet – total fund balances to the Statement of Net Position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

Financial Analysis of the Government-wide Financial Statements

Net Position

Net position may serve over time as a useful indicator of a government’s financial position. However, the net position of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not used to finance costs related to business-type activities. The following table reflects the condensed net position.

**Net Position
June 30**

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 13,222,362	\$ 17,873,313	\$ 9,200,187	\$ 9,604,204	\$ 22,422,549	\$ 27,477,517
Capital Assets	49,964,863	43,892,121	26,313,563	26,120,545	76,278,426	70,012,666
Total Assets	<u>63,187,225</u>	<u>61,765,434</u>	<u>35,513,750</u>	<u>35,724,749</u>	<u>98,700,975</u>	<u>97,490,183</u>
Other Liabilities	2,289,788	2,052,481	1,866,981	1,664,070	4,156,769	3,716,551
Long Term Liabilities	17,706,304	18,668,167	5,365,959	6,788,091	23,072,263	25,456,258
Total Liabilities	<u>19,996,092</u>	<u>20,720,648</u>	<u>7,232,940</u>	<u>8,452,161</u>	<u>27,229,032</u>	<u>29,172,809</u>

**Net Position
June 30**

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	Deferred Inflows of Resources	84,303	-	1,655,701	-	1,740,004
Net Position:						
Net Investment in Capital Assets	35,018,594	27,499,689	22,125,203	21,604,105	57,143,797	49,103,794
Restricted	7,687,797	12,509,354	3,241,173	789,583	10,928,970	13,298,937
Unrestricted	400,439	1,035,743	1,258,733	4,403,046	1,659,172	5,438,789
Total Net Position	<u>\$ 43,106,830</u>	<u>\$ 41,044,786</u>	<u>\$ 26,625,109</u>	<u>\$ 26,796,734</u>	<u>\$ 69,731,939</u>	<u>\$ 67,841,520</u>

The net position of the Town (including prior period adjustments) increased by \$1,890,419. The net position of the governmental activities increased by \$2,062,044 or 5%, and the net position of the business-type activities decreased by (\$171,625) or less than 1%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position have changed during the fiscal year.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 2,033,036	\$ 1,828,929	\$ 11,428,964	\$ 11,260,574	\$ 13,462,000	\$ 13,089,503
Operating Grants and Contributions	2,512,112	1,602,467	86,507	108,520	2,598,619	1,710,987
Capital Grants and Contributions	-	249,277	-	75,000	-	324,277
General Revenues:						
Property Taxes	26,824,493	25,797,374	-	-	26,824,493	25,797,374
Motor Vehicle and Other Excises	1,542,553	1,362,608	-	-	1,542,553	1,362,608
Intergovernmental Not Restricted to a Specific Program	761,723	749,534	-	-	761,723	749,534
Other	387,195	367,863	-	-	387,195	367,863
Total Revenues	<u>34,061,112</u>	<u>31,958,052</u>	<u>11,515,471</u>	<u>11,444,094</u>	<u>45,576,583</u>	<u>43,402,146</u>
Expenses						
General Government	2,262,712	2,756,719	-	-	2,262,712	2,756,719
Public Safety	3,926,712	3,248,767	-	-	3,926,712	3,248,767
Education	17,178,474	16,461,579	-	-	17,178,474	16,461,579
Highways and Public works	2,977,708	2,303,112	-	-	2,977,708	2,303,112
Human Services	316,679	298,004	-	-	316,679	298,004
Culture and Recreation	1,851,680	1,716,856	-	-	1,851,680	1,716,856
Fringe Benefits	2,983,135	2,705,619	-	-	2,983,135	2,705,619
Interest on Debt Service	501,968	304,920	-	-	501,968	304,920
Electric	-	-	9,730,754	9,028,541	9,730,754	9,028,541
Sewer	-	-	786,124	745,930	786,124	745,930
Water	-	-	1,170,218	1,247,138	1,170,218	1,247,138
Total Expenses	<u>31,999,068</u>	<u>29,795,576</u>	<u>11,687,096</u>	<u>11,021,609</u>	<u>43,686,164</u>	<u>40,817,185</u>
Increase (Decrease) in Net Position	<u>\$ 2,062,044</u>	<u>\$ 2,162,476</u>	<u>\$ (171,625)</u>	<u>\$ 422,485</u>	<u>\$ 1,890,419</u>	<u>\$ 2,584,961</u>

Governmental Activities

In fiscal year 2014, property taxes accounted for approximately 79% of the revenues.

Business-type Activities

Electric, sewer and water rates are structured to cover all costs related to each activity. In the current year, expenses exceeded revenues.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund was \$200,462 less than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance and details the certified free cash. Beginning with fiscal year 2011 fund balances are reported in accordance with Governmental Accounting Standards Board Statement #54.

Changes in Fund Balance and Free Cash General Fund

Fiscal Year	Reserved for Encumbrances	Reserved for Petty Cash	Reserved for Subsequent Year's Expenditure	Unreserved	Total Fund Balance	Free Cash
2005	\$704,236	\$50	\$10,000	\$1,104,775	\$1,819,061	\$855,318
2006	106,664	50	-	1,277,124	1,383,838	904,466
2007	423,188	200	-	912,714	1,336,102	755,321
2008	134,018	200	-	604,151	738,369	627,146
2009	170,655	200	-	722,222	893,077	637,627
2010	333,672	200	-	1,457,383	1,791,255	818,654
					Total Fund Balance	Free Cash
2011	<u>\$15,830</u>	<u>\$307,510</u>	<u>\$71,289</u>	<u>\$3,237,271</u>	\$3,631,900	\$1,145,957
2012	-	654,523	80,937	3,210,243	3,945,703	1,136,576
2013	-	308,269	77,309	3,711,113	4,096,691	1,316,409
2014	-	510,881	106,327	3,279,021	3,896,229	1,181,587

The fiscal year 2013 and 2014 fund balances include \$1,961,649 and \$1,998,120 respectively. These amounts represent the Town's stabilization fund balance, which is required to be included with the general fund for financial statements purposes, in accordance with the new GASB 54 requirements.

Proprietary Funds. The Town of Groton, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget is made up of transfers between functions. The majority of the transfers were from the general government reserve fund.

Capital Asset and Debt Administration

Capital assets. The Town of Groton, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2014, amounts to \$49,964,863 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Capital Assets at June 30 (Net of Depreciation)

	<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>
Land and Construction in Progress	\$ 37,492,243	\$ 31,151,007	\$ 3,021,323	\$ 2,683,261	\$ 40,513,566	\$ 33,834,268
Distribution Plant	-	-	4,511,454	4,516,931	4,511,454	4,516,931
General Plant	-	-	1,872,316	1,694,263	1,872,316	1,694,263
Buildings	7,384,232	7,474,422	2,114,021	2,179,211	9,498,253	9,653,633
Improvements Other Than Buildings	777,936	667,124	112,234	119,974	890,170	787,098
Infrastructure	1,524,483	1,601,785	14,429,904	14,820,078	15,954,387	16,421,863
Equipment	958,481	962,825	211,076	89,277	1,169,557	1,052,102
Vehicles	1,827,488	2,034,958	41,235	17,550	1,868,723	2,052,508
Total	<u>\$ 49,964,863</u>	<u>\$ 43,892,121</u>	<u>\$ 26,313,563</u>	<u>\$ 26,120,545</u>	<u>\$ 76,278,426</u>	<u>\$ 70,012,666</u>

Debt

The Town had \$19,106,840 in general obligation bonds, outstanding on June 30, 2014. This represents a \$1,641,883 decrease or 8% decrease from the previous year.

General Obligation Bonds Payable at June 30

	<u>2014</u>	<u>2013</u>
Governmental Activities	<u>\$ 14,869,880</u>	<u>\$ 16,179,648</u>
Business-type Activities		
Electric	224,120	265,660
Sewer	348,600	377,635
Water	3,664,240	3,925,780
Total Business Type Activities	<u>4,236,960</u>	<u>4,569,075</u>
Total Debt	<u>\$ 19,106,840</u>	<u>\$ 20,748,723</u>

Standard and Poor's rating services has raised the Town's general obligation debt rating to AAA from the previous rating of AA+. The upgrade follows a review of the Town's financial policies and practices, which have been determined to be strong, well embedded, and likely sustainable.

Fiscal Year 2014 Budget

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that Towns can assess in any one year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

A decrease in state aid combined with an increase in the regional school assessments and an increase in employee benefits and other expenses had to be considered in balancing the fiscal year 2014 budget.

Town of Groton, Massachusetts
Statement of Net Position
June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued on Page 10)

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>Government-</u> <u>Wide</u> <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 11,870,959	\$ 1,808,505	\$ 13,679,464
Receivables:			
Property Taxes	323,170	-	323,170
Tax Liens	248,732	-	248,732
Excises	139,544	-	139,544
Interest	-	1,730	1,730
User Charges	-	1,296,013	1,296,013
Departmental	131,499	-	131,499
Intergovernmental	300,566	-	300,566
Special Assessment Liens	16,520	4,896	21,416
Materials and Supplies	-	470,738	470,738
Prepaid Expenses	-	942,100	942,100
Noncurrent:			
Investments	-	4,237,719	4,237,719
Deferred Property Taxes	191,372	-	191,372
Deferred Special Assessments	-	320,750	320,750
Other Assets	-	117,736	117,736
Capital Assets:			
Assets Not Being Depreciated	37,492,243	3,021,323	40,513,566
Assets Being Depreciated, Net	12,472,620	23,292,240	35,764,860
Total Assets	<u>63,187,225</u>	<u>35,513,750</u>	<u>98,700,975</u>
Liabilities			
Current:			
Warrants Payable	157,700	1,292,859	1,450,559
Accrued Salaries Payable	216,648	665	217,313
Lease Payable	27,728	-	27,728
Due to Individuals	292,866	-	292,866
Accrued Interest	136,776	64,496	201,272
Bonds Payable	1,348,070	336,267	1,684,337
Other Accrued Liabilities	-	172,694	172,694
Bond Anticipation Notes Payable	110,000	-	110,000

Town of Groton, Massachusetts
Statement of Net Position
June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued from Page 9)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government- Wide <u>Total</u>
Noncurrent:			
Bonds Payable	13,521,810	3,900,693	17,422,503
Deferred Gain on Refinance of Bond		464,220	464,220
Customer Deposit	-	232,861	232,861
Lease Payable	48,661	-	48,661
Other Accrued Liabilities	-	128,956	128,956
Compensated Absences	347,477	24,941	372,418
Landfill Liability	657,618	-	657,618
Other Post Employment Benefit Obligations	3,130,738	614,288	3,745,026
Total Liabilities	<u>19,996,092</u>	<u>7,232,940</u>	<u>27,229,032</u>
Deferred Inflows of Resources:			
Deferred Gain on Refinance of Bond	84,303	7,971	92,274
Contribution in Aid of Construction	-	72,513	72,513
Reserve for Rate Stabilization	-	1,575,217	1,575,217
Total Deferred Inflows of Resources	<u>84,303</u>	<u>1,655,701</u>	<u>1,740,004</u>
Net Position:			
Net Investment in Capital Assets	35,018,594	22,125,203	57,143,797
Restricted for:			
Capital Projects	521,762	2,533,546	3,055,308
Debt Service	-	707,627	707,627
Special Revenue	3,354,532	-	3,354,532
Perpetual Funds:			
Expendable	816,039	-	816,039
Nonexpendable	2,995,464	-	2,995,464
Unrestricted	<u>400,439</u>	<u>1,258,733</u>	<u>1,659,172</u>
Total Net Position	<u>\$ 43,106,830</u>	<u>\$ 26,625,109</u>	<u>\$ 69,731,939</u>

Town of Groton, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2014
(Except for the Electric Activity, Which is for Year Ended December 31, 2013)

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 2,262,712	\$ 250,034	\$ 1,131,569	\$ -	\$ (881,109)	\$ -	\$ (881,109)
Public Safety	3,926,712	759,276	229,690	-	(2,937,746)	-	(2,937,746)
Education	17,178,474	-	37	-	(17,178,437)	-	(17,178,437)
Highways and Public works	2,977,708	310,935	548,452	-	(2,118,321)	-	(2,118,321)
Human Services	316,679	9,269	99,673	-	(207,737)	-	(207,737)
Culture and Recreation	1,851,680	703,522	502,691	-	(645,467)	-	(645,467)
Fringe Benefits	2,983,135	-	-	-	(2,983,135)	-	(2,983,135)
Interest on Debt Service	501,968	-	-	-	(501,968)	-	(501,968)
Total Governmental Activities	<u>31,999,068</u>	<u>2,033,036</u>	<u>2,512,112</u>	<u>-</u>	<u>(27,453,920)</u>	<u>-</u>	<u>(27,453,920)</u>
<i>Business-Type Activities:</i>							
Electric	9,730,754	9,733,814	27,573	-	-	30,633	30,633
Sewer	786,124	574,815	2,425	-	-	(208,884)	(208,884)
Water	1,170,218	1,120,335	56,509	-	-	6,626	6,626
Total Business-Type Activities	<u>11,687,096</u>	<u>11,428,964</u>	<u>86,507</u>	<u>-</u>	<u>-</u>	<u>(171,625)</u>	<u>(171,625)</u>
Total	<u>\$ 43,686,164</u>	<u>\$ 13,462,000</u>	<u>\$ 2,598,619</u>	<u>\$ -</u>	<u>(27,453,920)</u>	<u>(171,625)</u>	<u>(27,625,545)</u>
<i>General Revenues:</i>							
Property Taxes					26,824,493	-	26,824,493
Motor Vehicle and Other Excise Taxes					1,542,553	-	1,542,553
Penalties and Interest on Taxes					93,809	-	93,809
Other Taxes, Assessments and in Lieu Payments					205,882	-	205,882
Intergovernmental					761,723	-	761,723
Interest and Investment Income					69,500	-	69,500
Other Revenue					5,082	-	5,082
Contributions to Permanent Funds					29,200	-	29,200
<i>Special Items:</i>							
Gain (Loss) on Sales of Capital Assets					(16,278)	-	(16,278)
Total General Revenues, Special Items and Transfers					<u>29,515,964</u>	<u>-</u>	<u>29,515,964</u>
Change in Net Position					2,062,044	(171,625)	1,890,419
<i>Net Position:</i>							
Beginning of the Year					41,044,786	27,272,588	68,317,374
Prior Period Adjustment					-	(475,854)	(475,854)
Beginning of the Year, as Restated					<u>41,044,786</u>	<u>26,796,734</u>	<u>67,841,520</u>
End of the Year					<u>\$ 43,106,830</u>	<u>\$ 26,625,109</u>	<u>\$ 69,731,939</u>

Town of Groton, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 4,100,868	\$ 7,770,091	\$ 11,870,959
Receivables:			
Property Taxes	323,170	-	323,170
Tax Liens	248,732	-	248,732
Excises	139,544	-	139,544
Deferred Property Taxes	191,372	-	191,372
Departmental	131,499	-	131,499
Intergovernmental	-	300,566	300,566
Special Assessments	-	16,520	16,520
Tax Foreclosures	58,286	-	58,286
Total Assets	\$ 5,193,471	\$ 8,087,177	\$ 13,280,648
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 157,700	\$ -	\$ 157,700
Accrued Payroll Payable	216,648	-	216,648
Other Liabilities	3,486	289,380	292,866
Notes Payable	-	110,000	110,000
Unearned Revenue:			
Property Taxes	260,167	-	260,167
Departmental	131,499	-	131,499
Deferred Property Taxes	191,372	-	191,372
Tax Liens	248,732	-	248,732
Excises	29,352	-	29,352
Special Assessments	-	16,520	16,520
Tax Foreclosures	58,286	-	58,286
Intergovernmental	-	300,566	300,566
Total Liabilities	1,297,242	716,466	2,013,708
Fund Equity:			
Fund Balances:			
Nonspendable	-	2,995,464	2,995,464
Restricted	-	3,994,387	3,994,387
Committed	510,881	45,958	556,839
Assigned	106,327	427,262	533,589
Unassigned	3,279,021	(92,360)	3,186,661
Total Fund Balances	3,896,229	7,370,711	11,266,940
Total Liabilities and Fund Balances	\$ 5,193,471	\$ 8,087,177	\$ 13,280,648

Town of Groton, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 26,267,325	\$ 567,493	\$ 26,834,818
Excises	1,513,201	-	1,513,201
Penalties and Interest	93,809	-	93,809
Licenses and Permits	376,539	174,504	551,043
Intergovernmental	885,514	1,714,467	2,599,981
Fees and Other Departmental	391,435	67,731	459,166
Charges for Services	609,813	319,286	929,099
Fines and Forfeits	48,349	-	48,349
Earnings on Investments	69,500	444,911	514,411
In Lieu of Taxes	205,882	-	205,882
Contributions	-	126,330	126,330
Miscellaneous	24,017	263,322	287,339
Total Revenues	<u>30,485,384</u>	<u>3,678,044</u>	<u>34,163,428</u>
<u>Expenditures:</u>			
General Government	2,203,219	451,380	2,654,599
Public Safety	3,582,513	6,300,316	9,882,829
Education	17,146,730	-	17,146,730
Intergovernmental	104,471	-	104,471
Highways and Public Works	2,065,700	724,175	2,789,875
Human Services	244,802	28,725	273,527
Culture and Recreation	1,548,026	275,049	1,823,075
Employee Benefits	2,445,796	-	2,445,796
Debt Service:			
Principal	959,368	350,400	1,309,768
Interest	373,881	147,113	520,994
Total Expenditures	<u>30,674,506</u>	<u>8,277,158</u>	<u>38,951,664</u>
Excess of Revenues Over (Under) Expenditures	<u>(189,122)</u>	<u>(4,599,114)</u>	<u>(4,788,236)</u>
Other Financing Sources (Uses):			
Operating Transfers In	222,000	481,502	703,502
Operating Transfers (Out)	(233,340)	(470,162)	(703,502)
Total Other Financing Sources (Uses)	<u>(11,340)</u>	<u>11,340</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(200,462)</u>	<u>(4,587,774)</u>	<u>(4,788,236)</u>
Fund Balance, Beginning	4,096,691	11,958,485	16,055,176
Fund Balance, Ending	<u>\$ 3,896,229</u>	<u>\$ 7,370,711</u>	<u>\$ 11,266,940</u>

Town of Groton, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 Fiscal Year Ended June 30, 2014

Total Governmental Fund Balances	\$	11,266,940
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		49,964,863
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,178,208
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds Payable		(14,869,880)
Deferred Gain on Refinance of Bond		(84,303)
Accrued Interest on Bonds		(136,776)
Landfill Accrued Liability		(657,618)
Leasing Payable		(76,389)
Other Post Employment Benefit Obligations		(3,130,738)
Compensated Absences		(347,477)
		(14,869,880)
Net Position of Governmental Activities	\$	43,106,830

Town of Groton, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ (4,788,236)
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. This is the amount by which depreciation exceeded capital outlays in the current period.	6,107,955
In the governmental funds, the disposal of capital assets is reported, whereas in the statement of activities, the sale is not reported.	(35,213)
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.	(67,103)
The issuance of long-term debt (e.g., bonds, landfill, 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,365,524
Some expenses reported in the Statement of Activities, such as compensated absences and other postemployment benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the net change in the compensated absences liability and other post employment benefits.	(520,883)
Change in Net Position of Governmental Activities	<u><u>\$ 2,062,044</u></u>

Town of Groton, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued on Page 17)

	Business - Type Activities Enterprise Fund			
	Electric Light			
	<u>Department</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Assets				
Current:				
Cash and Cash Investments	\$ 589,300	\$ 854,872	\$ 364,333	\$ 1,808,505
Receivables, Net of Allowance for Uncollectibles:				
User Charges	1,217,871	30,213	47,929	1,296,013
Special Assessments	-	4,896	-	4,896
Interest	1,730	-	-	1,730
Materials and Supplies	470,738	-	-	470,738
Prepaid Expenses	942,100	-	-	942,100
Noncurrent:				
Investments	4,237,719	-	-	4,237,719
Receivables:				
Deferred Special Assessments	-	320,750	-	320,750
Other Assets	117,736	-	-	117,736
Assets Not Being Depreciated	2,215,726	75,000	730,597	3,021,323
Assets Being Depreciated, Net	6,383,770	4,526,375	12,382,095	23,292,240
Total Assets	16,176,690	5,812,106	13,524,954	35,513,750
Liabilities				
Current:				
Warrants Payable	1,232,582	22,570	37,707	1,292,859
Accrued Payroll Payable	-	140	525	665
Interest on Bonds Payable	-	6,616	57,880	64,496
Bonds Payable	38,280	29,050	268,937	336,267
Other Accrued Liabilities	172,694	-	-	172,694
Noncurrent:				
Customer Deposits	232,861	-	-	232,861
Bonds Payable	185,840	319,550	3,395,303	3,900,693
Customer Advances for Construction	464,220	-	-	464,220
Other Accrued Liabilities	128,956	-	-	128,956
Compensated Absences	-	978	23,963	24,941
Other Post Employment Benefit Obligations	461,280	17,367	135,641	614,288
Total Liabilities	2,916,713	396,271	3,919,956	7,232,940

Town of Groton, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued from Page 16)

	Business - Type Activities Enterprise Fund			<u>Total</u>
	Electric Light			
	<u>Department</u>	<u>Sewer</u>	<u>Water</u>	
Deferred Inflows of Resources:				
Deferred Gain on Refinance of Bond	7,971	-	-	7,971
Contribution in Aid of Construction	72,513	-	-	72,513
Reserve for Rate Stabilization	1,575,217	-	-	1,575,217
Total Deferred Inflows of Resources	1,655,701	-	-	1,655,701
Net Position				
Net Investment in Capital Assets	8,375,376	4,301,375	9,448,452	22,125,203
Restricted for:				
Restricted for Depreciation	2,533,546	-	-	2,533,546
Debt Service	224,120	483,507	-	707,627
Unrestricted	471,234	630,953	156,546	1,258,733
Total Net Position	\$ 11,604,276	\$ 5,415,835	\$ 9,604,998	\$ 26,625,109

Town of Groton, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014
(Except for the Electric Activity, Which is for Year Ended December 31, 2013)

	Business - Type Activities Enterprise Funds			
	Electric Light <u>Department</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
	Operating Revenues:			
Charges for Services	\$ 9,215,953	\$ 562,744	\$ 1,115,243	\$ 10,893,940
Other Operating	517,861	12,071	-	529,932
Intergovernmental	-	-	5,092	5,092
Total Operating Revenues	<u>9,733,814</u>	<u>574,815</u>	<u>1,120,335</u>	<u>11,428,964</u>
Operating Expenditures:				
Personal Services	231,615	21,347	273,240	526,202
Nonpersonal Service	8,244,291	599,511	351,404	9,195,206
Maintenance	895,423	-	-	895,423
Depreciation	336,725	150,712	394,063	881,500
Total Operating Expenditures	<u>9,708,054</u>	<u>771,570</u>	<u>1,018,707</u>	<u>11,498,331</u>
Operating Income	<u>25,760</u>	<u>(196,755)</u>	<u>101,628</u>	<u>(69,367)</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	-	-	23,172	23,172
Earnings on Investments	27,573	2,425	33,337	63,335
Interest on Debt	(7,700)	(14,554)	(151,511)	(173,765)
Total Nonoperating Revenues (Expenses)	<u>19,873</u>	<u>(12,129)</u>	<u>(95,002)</u>	<u>(87,258)</u>
Income Before Contributions and Transfers	<u>45,633</u>	<u>(208,884)</u>	<u>6,626</u>	<u>(156,625)</u>
Other Financing Sources (Uses):				
Payment in Lieu of Taxes	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Net Income	<u>30,633</u>	<u>(208,884)</u>	<u>6,626</u>	<u>(171,625)</u>
Total Net Position July 1, 2013	<u>12,049,497</u>	<u>5,624,719</u>	<u>9,598,372</u>	<u>27,272,588</u>
Prior Year Adjustment	<u>(475,854)</u>	<u>-</u>	<u>-</u>	<u>(475,854)</u>
Total Net Position July 1, 2013, as Restated	<u>11,573,643</u>	<u>5,624,719</u>	<u>9,598,372</u>	<u>26,796,734</u>
Total Net Position June 30, 2014	<u>\$ 11,604,276</u>	<u>\$ 5,415,835</u>	<u>\$ 9,604,998</u>	<u>\$ 26,625,109</u>

Town of Groton, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued on Page 20)

	Business - Type Activities Enterprise Funds			Total
	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 9,455,216	\$ 593,875	\$ 1,111,710	\$ 11,160,801
Receipts from Government	-	-	5,092	5,092
Payments to Employees	(1,696,865)	(21,150)	(269,546)	(1,987,561)
Payments to Vendors	(7,367,710)	(574,409)	(342,633)	(8,284,752)
Rents from Electric Property	213,709	-	-	213,709
Net Cash Flows Provided (Used) by Operating Activities	<u>604,350</u>	<u>(1,684)</u>	<u>504,623</u>	<u>1,107,289</u>
Cash Flows from Non Capital Related Financing Activities:				
Payments in Lieu of Taxes	(15,000)	-	-	(15,000)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(945,452)	(69,029)	(158,126)	(1,172,607)
Contribution in Aid of Construction	37,769	-	-	37,769
Customer Advances for Construction	23,110	-	-	23,110
Principal Payments on Notes and Bonds	(41,540)	(29,035)	(261,540)	(332,115)
Interest Expense	(10,339)	(15,212)	(100,065)	(125,616)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(936,452)</u>	<u>(113,276)</u>	<u>(519,731)</u>	<u>(1,569,459)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	5,793	2,425	1,046	9,264
Proceeds from Sales and Maturities of Investments	1,123	-	-	1,123
Change in Rate Stabilization Reserve	358,674	-	-	358,674
Net Cash Flows Provided (Used) by Investing Activities	<u>365,590</u>	<u>2,425</u>	<u>1,046</u>	<u>369,061</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,488	(112,535)	(14,062)	(108,109)
Cash and Cash Equivalents, July 1, 2013	3,201,087	967,407	378,395	4,546,889
Prior Period Adjustment	(2,630,275)	-	-	(2,630,275)
Cash and Cash Equivalents, July, 2013, as Restated	570,812	967,407	378,395	1,916,614
Cash and Cash Equivalents, June 30, 2014	<u>\$ 589,300</u>	<u>\$ 854,872</u>	<u>\$ 364,333</u>	<u>\$ 1,808,505</u>

Town of Groton, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014
(Except for the Electric Enterprise Activity, Which is as of December 31, 2013)
(Continued from Page 19)

	Business - Type Activities Enterprise Funds			<u>Total</u>
	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	25,760	(196,755)	101,628	(69,367)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	336,725	150,712	394,063	881,500
Rate Stabilization	8,858	-	-	8,858
Insurance Reserve	249	-	-	249
(Increase) Decrease in Assets:				
Accounts Receivable	(81,072)	19,060	(3,533)	(65,545)
Material and Supplies	100,644	-	-	100,644
Prepaid Expenses	(5,593)	-	-	(5,593)
Purchased Power Prepayments and Working Capital	26,474	-	-	26,474
Increase (Decrease) in Liabilities:				
Warrants and Accounts Payable	176,242	21,700	(5,798)	192,144
Customer Deposits	(7,005)	-	-	(7,005)
Other Accrued Expenses	14,516	-	-	14,516
Other Post Employment Benefit Obligations	8,552	3,599	18,263	30,414
Net Cash Provided by Operating Activities	<u>\$ 604,350</u>	<u>\$ (1,684)</u>	<u>\$ 504,623</u>	<u>\$ 1,107,289</u>

Town of Groton, Massachusetts
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2014

	Private Purpose <u>Trust</u>	Agency <u>Funds</u>
Assets		
Cash and Cash Investments	\$12,772,627	\$ 372,859
Other Receivables	-	30,684
	<hr/>	<hr/>
Total Assets	12,772,627	403,543
	<hr/>	<hr/>
Liabilities		
Current:		
Other Liabilities	-	403,543
	<hr/>	<hr/>
Total Liabilities	-	403,543
	<hr/>	<hr/>
Net Position		
Expendable	2,249,510	-
Nonexpendable	10,523,117	-
	<hr/>	<hr/>
Total Net Position	\$ 12,772,627	\$ -
	<hr/> <hr/>	<hr/> <hr/>

Town of Groton, Massachusetts
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 Fiscal Year Ended June 30, 2014

	<u>Private Purpose Trust</u>
Additions (Reductions)	
Gifts	\$ 3,175
Interest, Dividends, and (Losses)	1,509,985
Total Additions (Reductions)	<u>1,513,160</u>
Deductions	
Benefits Paid	<u>179,366</u>
Change in Net Position	<u>1,333,794</u>
Net Position:	
Beginning of the Year	<u>11,438,833</u>
End of the Year	<u><u>\$ 12,772,627</u></u>

Town of Groton, Massachusetts
Notes to the Financial Statements
June 30, 2014 (December 31, 2013 Electric
Enterprise Fund)

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Groton as of June 30, 2014. The report includes all the services provided by the Town to its residents and businesses within its boundaries. Municipal services provided include education, public safety, recreation, public works, library and general administration. Criteria used in determining the scope of the reporting entity included the Town's ability to significantly influence operations, selection of governing authority, designation of management, financial interdependency and accountability for fiscal matters. All operations of the Town that meet the preceding criteria are included in the reporting entity.

II. Summary of Significant Accounting Policies

The accounting policies of the Town of Groton, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2014 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the Town are summarized below.

(A) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **Statement of Net Position** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 are reported as separate columns in the fund financial statements.

(B) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. All other revenues are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental fund:

General Fund – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

The Town reports the following proprietary funds:

Water Fund – This fund is used to account for the activities related to the water distribution system.

Sewer Fund – This fund is used to account for sewer activities.

Electric Light – This fund is used to account for the Town’s electric light operations.

(C) Budgetary Data

i) General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until April, which is when the annual Town meeting is held, to make any changes to the department requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

ii) Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the Town's annual recap sheet and include only those amounts which pertain to June 30, 2014. The budget amounts include special Town meeting votes applicable to June 30, 2014 and any reserve fund transfers authorized by the Finance Committee.

The expenditures on this statement are presented on a budgetary Non-GAAP basis. The difference between GAAP (Generally Accepted Accounting Principles) and Non-GAAP presentation is as follows:

	<u>Revenues</u>
As Reported Budget Basis	\$ 30,987,642
Adjustments:	
Sixty Day Property Tax Accrual - Net	23,559
Fringe Benefits Reimbursement from Other Funds	
Reported as Other Departmental Revenue on Budget Basis	(577,090)
On Behalf Payments Included in Intergovernmental	37
Earning Income of Stabilization Reported in Statement of	
Revenues, Expenditures, and Changes in Fund Balances	51,236
As Reported GAAP Statement	<u>\$ 30,485,384</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 31,087,999
Adjustments:	
July 1, 2013 Encumbrances	385,378
June 30, 2014 Encumbrances	(221,818)
Fringe Benefits Reimbursement from Other Funds	
Reported as Employee Benefits on Budget Basis	(577,090)
On Behalf Payments Included in Employee Benefits	37
As Reported GAAP Statement	<u>\$ 30,674,506</u>

(D) Capital Assets

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

The cost of normal maintenance and repairs (which do not add to the value of the asset or materially extend assets lives) is 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 of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:				
Land	\$ 28,684,795	\$ -	\$ -	\$ 28,684,795
Construction in Progress	2,466,212	6,341,236	-	8,807,448
Total Capital Assets Not Being Depreciated	<u>31,151,007</u>	<u>6,341,236</u>	<u>-</u>	<u>37,492,243</u>
Assets Being Depreciated:				
Buildings	13,453,628	256,142	-	13,709,770
Improvements Other Than Buildings	859,498	181,427	-	1,040,925
Infrastructure	12,064,092	-	-	12,064,092
Equipment	2,150,913	144,290	-	2,295,203
Vehicles	4,753,493	192,449	(215,179)	4,730,763
Total Capital Assets Being Depreciated	<u>33,281,624</u>	<u>774,308</u>	<u>(215,179)</u>	<u>33,840,753</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Buildings	(5,979,206)	(346,332)	-	(6,325,538)
Improvements Other Than Buildings	(192,374)	(70,615)	-	(262,989)
Infrastructure	(10,462,307)	(77,302)	-	(10,539,609)
Equipment	(1,188,088)	(148,634)	-	(1,336,722)
Vehicles	(2,718,535)	(361,206)	176,466	(2,903,275)
Total Accumulated Depreciation	<u>(20,540,510)</u>	<u>(1,004,089)</u>	<u>176,466</u>	<u>(21,368,133)</u>
Capital Assets Being Depreciated, Net	<u>12,741,114</u>	<u>(229,781)</u>	<u>(38,713)</u>	<u>12,472,620</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,892,121</u>	<u>\$ 6,111,455</u>	<u>\$ (38,713)</u>	<u>\$ 49,964,863</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 122,842
Public Safety	418,073
Education	31,744
Highways and Public works	237,238
Human Services	52,623
Culture and Recreation	<u>141,569</u>

Total Governmental Activities Depreciation Expense \$ 1,004,089

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Business-Type Activities:				
Land	\$ 1,486,276	\$ -	\$ -	\$ 1,486,276
Construction in Progress	1,196,985	465,049	(126,987)	1,535,047
Total Capital Assets Not Being Depreciated	<u>2,683,261</u>	<u>465,049</u>	<u>(126,987)</u>	<u>3,021,323</u>
Assets Being Depreciated:				
Distribution Plant	9,111,782	341,178	(135,018)	9,317,942
General Plant	2,112,374	241,424	-	2,353,798
Buildings	2,623,388	-	-	2,623,388
Improvements Other Than Buildings	154,805	-	-	154,805
Infrastructure	22,049,471	41,594	-	22,091,065
Equipment	454,302	155,468	-	609,770
Vehicles	98,957	30,093	(26,375)	102,675
Total Capital Assets Being Depreciated	<u>36,605,079</u>	<u>809,757</u>	<u>(161,393)</u>	<u>37,253,443</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Distribution Plant	(4,594,851)	(273,354)	61,717	(4,806,488)
General Plant	(418,111)	(63,371)	-	(481,482)
Buildings	(444,177)	(65,190)	-	(509,367)
Improvements Other Than Buildings	(34,831)	(7,740)	-	(42,571)
Infrastructure	(7,229,393)	(431,768)	-	(7,661,161)
Equipment	(365,025)	(33,669)	-	(398,694)
Vehicles	(81,407)	(6,408)	26,375	(61,440)
Total Accumulated Depreciation	<u>(13,167,795)</u>	<u>(881,500)</u>	<u>88,092</u>	<u>(13,961,203)</u>
Capital Assets Being Depreciated, Net	<u>23,437,284</u>	<u>(71,743)</u>	<u>(73,301)</u>	<u>23,292,240</u>
Business Type Activities Capital Assets, Net	<u>\$ 26,120,545</u>	<u>\$ 393,306</u>	<u>\$ (200,288)</u>	<u>\$ 26,313,563</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Electric	\$ 336,725
Sewer	150,712
Water	394,063
Total Business-Type Activities Depreciation Expense	<u>\$ 881,500</u>

(E) Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below.

1. Nonspendable, includes amounts that cannot be spent because (a) they are not spendable form (such as fund balance associated with inventories) (b) they are legally or contractually required to stay intact (i.e. corpus of a permanent trust fund).

2. Restricted, constraints on the use of resources for specific purposes are imposed (a) by creditors, grantors or contributors, or (b) by law through constitutional provisions or through enabling legislation.

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town’s highest level of decision-making authority). Similar formal action by the Board of Selectmen is required in order to “reverse” the commitment.

4. **Assigned**, intentions (by the Board of Selectmen, Town Manager or Town Accountant) that resources are to be used by the government for specific purposes, but the restrictions do not meet the criteria necessary to be classified as restricted or committed.

5. **Unassigned**, the residual classification for the government’s general fund. It includes all spendable amounts not contained in the nonspendable, restricted, committed or assigned categories. A “positive” unassigned may only be displayed in the general fund.

The Board of Selectmen is the highest level of decision making authority in the Town. Committed fund balance cannot be used for any other purposes without formal vote taken by the Board of Selectmen.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it is considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town’s balance sheet.

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Culture and Recreation	\$ -	\$ 2,995,464	\$ 2,995,464
Total Nonspendable:	<u>-</u>	<u>2,995,464</u>	<u>2,995,464</u>
Restricted for:			
General Government	-	1,348,073	1,348,073
Public Safety	-	1,248,780	1,248,780
Education	-	3,390	3,390
Highways and Public Works	-	8,482	8,482
Human Services	-	141,932	141,932
Culture and Recreation	-	1,243,730	1,243,730
Total Restricted for:	<u>-</u>	<u>3,994,387</u>	<u>3,994,387</u>

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Committed to:			
General Government	160,923	40,095	201,018
Public Safety	170,000	5,863	175,863
Highways and Public Works	35,000	-	35,000
Human Services	30,000	-	30,000
Culture and Recreation	114,958	-	114,958
Total Committed to:	<u>510,881</u>	<u>45,958</u>	<u>556,839</u>
Assigned to:			
General Government	18,930	427,262	446,192
Public Safety	41,064	-	41,064
Highways and Public Works	5,715	-	5,715
Human Services	635	-	635
Culture and Recreation	31,218	-	31,218
Employee Benefits	8,765	-	8,765
Total Assigned to:	<u>106,327</u>	<u>427,262</u>	<u>533,589</u>
Unassigned	<u>3,279,021</u>	<u>(92,360)</u>	<u>3,186,661</u>
Total Fund Balances	<u>\$ 3,896,229</u>	<u>\$ 7,370,711</u>	<u>\$ 11,266,940</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$1,998,120. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

(F) Assets, Liabilities and Fund Equity

i) Cash and Investments

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does have a formal deposit policy for custodial credit risk. As of June 30, 2014, \$542,733 of the Town's bank balance of \$5,326,444 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 542,733

Investments

According to GASB Statement No. 40 - "Deposit and Investment Risk Disclosures", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of June 30, 2014, the Town of Groton's investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U. S. Government Obligations	\$ 242,056	\$ -	\$ 11,352	\$ 230,704
Corporation Bonds	449,018	-	211,745	237,273
Money Markets	2,257,874	2,257,874	-	-
Certificate of Deposit	1,253,136	606,354	530,023	116,759
Equities	14,748,939	14,748,939	-	-
State Treasurer's Investment Pool	<u>6,218,823</u>	<u>6,218,823</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 25,169,846</u>	<u>\$ 23,831,990</u>	<u>\$ 753,120</u>	<u>\$ 584,736</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town follows the legal listing set by the state to purchase its investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town has a formal policy for the trust funds that limits the amount it may invest in a single issuer (State law limits the amount that may be deposited in a financial institution without collateralization). Ten percent of the Town's investments are in U.S. Government Obligations.

ii) Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which property tax assessments can be increased to 2.5% of the preceding year's assessment plus any new growth.

iii) Warrants Payable

This account consists of those warrants approved by the Town Accountant for payment between July 1 and July 15. These warrants have been recorded as expenditures during the current fiscal year and the corresponding credit is to the account entitled warrants payable.

(G) Interfund Transfers, Compensated Absences and Pension Plans

i) Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues nor expenditures of the funds.

Operating transfers - by fund - are detailed below:

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 222,000	\$ (233,340)	\$ (11,340)
Non-Major Governmental	481,502	(470,162)	11,340
Total	<u>\$ 703,502</u>	<u>\$ (703,502)</u>	<u>\$ -</u>

ii) Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination.

iii) Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

(b) Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2014, 2013 and 2012 were \$1,476,492, \$1,377,437 and \$1,324,432, respectively, equal to 100% of the required contribution each year.

(H) Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2014. These statements require the town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information, which is required to be disclosed by GASB 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 45, is presented following the notes to the financial statements.

Plan Description. The Town sponsors a single employer defined benefit health plan. The Town provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefits paid by the Town are on a pay-as-you-go basis. Currently there are approximately 96 active employees and 58 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

Funding Policy. The Town pays 80% of the premiums for the active employees and 65% for the retirees for health insurance, and 50% of the premiums for both the active employees and retirees for life insurance, with the employees/retirees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$954,488
Interest on Net OPEB Obligation	126,248
Adjustment to Annual Required Contribution	<u>(175,503)</u>
Annual OPEB Cost (Expense)	905,233
Contributions Made	<u>(375,811)</u>
Increase in Net OPEB Obligation	529,422
Net OPEB Obligation (NOO)- Beginning of Year	<u>3,156,190</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$3,685,612</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are shown below:

2009	\$832,604	\$173,139	21%	\$659,465
2010	858,983	189,553	22%	1,326,453
2011	885,760	204,646	23%	2,010,009
2012	872,137	404,225	46%	2,477,921
2013	879,229	200,960	23%	3,156,190
2014	905,233	375,811	42%	3,685,612

Funded Status and Funding Progress. As of June 30, 2014, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$7,150,656, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$7,150,656.

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 (RSI) 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 to 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 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent. The actuarial value of any assets would be determined using market value. The UAAL is being amortized over a thirty year amortization period.

(I) On Behalf Payments

In accordance with Governmental Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance", the Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town (for the school District's teachers) the Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2014, the Commonwealth paid \$37 to the State Plan on behalf of the Town. Accordingly, the accompanying financial statements include the required adjustments, which have increased both revenues and expenditures by the same amount. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2014, or fund balances at June 30, 2014.

III. Detailed Notes on All Funds (Continued)

(A) Assets

Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

General Fund

Property Taxes Receivable:

Real Estate Taxes

2014	\$284,371
2013	24,005
2012	2,329
2011	<u>791</u>

Total Real Estate Taxes \$ 311,496

Personal Property Taxes

2014	3,273
2013	<u>2,015</u>

Total Personal Property Taxes 5,288

CPA Preservation

2014	6,345
2013	31
2012	<u>10</u>

Total CPA Preservation 6,386

Total Property Taxes Receivable \$ 323,170

Tax Liens \$ 248,732

(A) Assets (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Tax

2014	\$97,388
2013	14,181
2012	6,424
2011	3,560
2010	4,231
2009	3,456
2008	3,082
2007	2,935
2006	4,287

Tax Excise Receivable \$ 139,544

Departmental - Ambulance \$ 131,499

Intergovernmental:

Due from Commonwealth of Massachusetts

Massachusetts Highway \$300,566

Total Intergovernmental \$ 300,566

Deferred Property Tax \$ 191,372

Special Assessments:

Septic Betterments \$ 16,520

Enterprise Fund

Current:

User Charges

Electric \$ 1,217,871

Sewer 30,213

Water 47,929

Total User Charges \$ 1,296,013

Special Assessments:

Sewer - Current \$ 4,896

Sewer - Noncurrent 320,750

Total Special Assessments \$ 325,646

(B) Liabilities

i Short Term Notes Payable

The Town had various short term notes outstanding during the fiscal year ended June 30, 2014, as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>
<u>Governmental Activities:</u>						
Sewerage Planning Design & EIR	0.60%	\$ 230,000	\$ 110,000	\$ 230,000	\$ 110,000	02/13/15
Total Governmental		\$ 230,000	\$ 110,000	\$ 230,000	\$ 110,000	
<u>Business-Type Activities:</u>						
Light Building Construction	0.35%	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000	8/29/2014
Total Business-type		\$ -	\$ 2,000,000	\$ -	\$ 2,000,000	

ii Long Term Debt

General obligation bonds outstanding at June 30, 2014, bear interest at various rates.

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2014:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Balance 7/01/13	\$ 16,179,648	\$ 4,569,075	\$ 20,748,723
Less: Maturities	(1,309,768)	(332,115)	(1,641,883)
Balance 6/30/14	\$ 14,869,880	\$ 4,236,960	\$ 19,106,840

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$1,348,070	\$458,328	\$336,267	\$168,994
2016	1,363,070	408,783	341,932	155,779
2017	1,384,000	354,041	352,207	136,427
2018	1,344,000	302,477	363,435	120,275
2019	1,162,650	257,561	376,038	103,900
2020-2024	4,003,090	770,931	1,898,654	272,291
2025-2029	2,045,000	434,888	568,427	8,799
2030-2034	2,020,000	181,225	-	-
2035	200,000	6,000	-	-
	<u>\$14,869,880</u>	<u>\$3,174,234</u>	<u>\$4,236,960</u>	<u>\$966,465</u>

(B) Liabilities (Continued)

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2014, are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
October 18, 2010	Light Department: New Office and Garage Facilities	\$2,000,000
October 17, 2011	Sewerage Planning Design & EIR	<u>110,000</u>
	Total	<u>\$2,110,000</u>

(d) Refunding of Long Term Debt

On November 1, 2010, the Town issued \$3,655,000 of General Obligations Refunding Bonds with an average interest rate of 1.65% to advance refund \$3,875,000 of outstanding debt with average interest rates of 2.87% and 2.61%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2015	\$594,519	\$539,000
2016	570,619	518,000
2017	551,769	477,800
2018	481,664	445,250
2019	235,718	219,500
2020	<u>220,238</u>	<u>199,500</u>
	<u>\$2,654,527</u>	<u>\$2,399,050</u>

Economic Gain from Refunding Issue

The total net present value benefit as a result of the refunding issues is \$336,751.

IV. Significant Commitments

Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose.

V. Subsequent Year Authorizations

The Town (including the water and sewer enterprise fund) adopted a fiscal 2015 operating and capital budget of \$36,852,564. Fiscal 2015 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid and Non-Property Tax Revenue	\$ 32,514,375
Enterprise and Community Preservation Funds	2,813,653
Other Available Funds	1,524,536
Total	<u>\$ 36,852,564</u>

VI. Landfill Closure and Post Closure Care Costs

As of June 30, 2014, the closure of the Town's landfill was effectively complete. In accordance with laws and regulations issued by the Massachusetts Department of Environmental Protection, the Town has capped the landfill. These laws also require the Town to perform certain maintenance and monitoring functions at the site for thirty years after the landfill is capped and closed. The Town estimates the closure and post closure care costs to be approximately \$700,000. The potential exists for changes to the estimates due to inflation or deflation, technology or applicable laws and regulations.

VII. Prior Period Adjustment

The prior period adjustments shown in the financial statements relate to the Groton Electric Light Department. The first adjustment shown on Page 18 (for \$475,854), relates to a reclassification of liabilities relating to GASB 63. The second adjustment shown on Page 19 (for \$2,630,275) relates to a reclassification of cash.

***REQUIRED
SUPPLEMENTARY
INFORMATION***

Town of Groton, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues and Expenditures - Budget and Actual
Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$ 25,982,566	\$ 26,081,470	\$ 26,254,417	\$ 172,947
Excises	1,285,000	1,285,000	1,502,550	217,550
Penalties, Interest on Taxes and Excises	90,000	90,000	93,809	3,809
Licenses and Permits	256,000	256,000	376,539	120,539
Other Departmental	889,000	889,000	968,525	79,525
Intergovernmental	805,354	805,354	885,477	80,123
Charges for Services	640,500	640,500	609,813	(30,687)
Fines and Forfeits	37,000	37,000	48,349	11,349
Earnings on Investments	6,000	6,000	18,264	12,264
In Lieu of Taxes	210,000	210,000	205,882	(4,118)
Miscellaneous	-	-	24,017	24,017
Total Revenues	<u>30,201,420</u>	<u>30,300,324</u>	<u>30,987,642</u>	<u>687,318</u>
<u>Expenditures</u>				
General Government	2,280,047	2,201,863	2,079,791	122,072
Public Safety	3,267,699	3,527,104	3,501,933	25,171
Education	17,146,181	17,146,694	17,146,694	-
Highway and Public Works	1,863,255	1,863,755	2,042,091	(178,336)
Health and Human Services	263,732	272,732	244,351	28,381
Culture and Recreation	1,447,841	1,622,738	1,606,970	15,768
Intergovernmental	104,471	104,471	104,471	-
Employee Benefits	3,092,424	3,111,924	3,028,449	83,475
Debt Service:				
Principal	1,036,877	968,709	959,368	9,341
Interest	373,881	373,881	373,881	-
Total Expenditures	<u>30,876,408</u>	<u>31,193,871</u>	<u>31,087,999</u>	<u>105,872</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(674,988)</u>	<u>(893,547)</u>	<u>(100,357)</u>	<u>793,190</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	894,765	916,765	916,765	-
Transfers Out	(121,261)	(913,340)	(913,340)	-
Free Cash and Other Available Funds	-	988,638	988,638	-
Other Uses	(98,516)	(98,516)	(98,516)	-
Total Other Financing Sources (Uses)	<u>674,988</u>	<u>893,547</u>	<u>893,547</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>\$ 793,190</u>	<u>\$ 793,190</u>

Middlesex County Retirement System
Required Supplementary Information
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)
1/1/1996	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.87%	\$ 218,345,024	119.61%
1/1/1998	476,708,969	763,093,878	286,384,909	62.47%	215,380,186	132.97%
1/1/2000	570,263,467	905,280,472	335,017,005	62.99%	253,228,818	132.30%
1/1/2002	599,699,143	1,020,828,178	421,129,035	58.75%	280,740,439	150.01%
1/1/2004	618,163,380	1,223,828,127	605,664,747	50.51%	306,025,949	197.91%
1/1/2006	653,156,866	1,364,582,969	711,426,103	47.86%	330,999,861	214.93%
1/1/2008	774,863,669	1,529,806,307	754,942,638	50.65%	360,206,302	209.59%
1/1/2010	819,987,914	1,743,581,707	923,593,793	47.03%	384,933,571	239.94%
1/1/2012	862,323,395	1,974,144,909	1,111,821,514	43.68%	393,100,995	282.83%
1/1/2014	967,146,018	2,195,732,452	1,228,586,434	44.05%	415,752,810	295.51%

Middlesex County Retirement System
 Required Supplementary Information
 Schedule of Employer's Contribution

System Wide				Town of Groton	
Plan Year Ended December 31	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Town's Percentage of System Wide Actual Contributions (B/A)
2001	\$ 27,900,209	\$ 27,900,209	100.00%	\$ 315,639	1.13%
2002	30,248,147	30,248,147	100.00%	331,931	1.10%
2003	35,411,500	35,411,500	100.00%	375,967	1.06%
2004	52,902,366	52,902,366	100.00%	544,691	1.03%
2005	52,298,150	52,298,150	100.00%	778,861	1.49%
2006	60,169,717	60,169,717	100.00%	833,966	1.39%
2007	64,664,829	64,664,829	100.00%	926,763	1.43%
2008	72,050,318	72,050,318	100.00%	1,040,723	1.44%
2009	78,212,121	78,212,121	100.00%	1,136,369	1.45%
2010	76,146,963	76,146,963	100.00%	1,179,553	1.55%
2011	78,662,214	78,662,214	100.00%	1,223,286	1.56%
2012	81,933,448	81,933,448	100.00%	1,358,006	1.66%
2013	88,287,112	88,287,112	100.00%	1,377,437	1.56%

Required Supplementary Information - GASB 45
Town of Groton, Massachusetts
Schedule of Funding Progress
Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/2008	\$0	\$7,225,122	\$7,225,122	0%	\$5,501,062	131%
7/1/2011	\$0	\$7,150,656	\$7,150,656	0%	\$6,138,275	116%

Required Supplementary Information - GASB 45

Town of Groton, Massachusetts

Valuation Details

Fiscal Year Ended June 30, 2014

Valuation Date	July 1, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open 30-year level dollar basis
Asset Valuation Method	Not applicable - plan is unfunded

Actuarial Assumptions:

Investment Rate of Return	4.0%
	8.5% in fiscal 2012, decreasing 0.5% each year to an ultimate rate of 5.0% per year in fiscal 2019 and beyond
Medical/Drug Cost Trend Rate	

Plan Membership:

Current retirees, beneficiaries, and dependents	58
Current active members	<u>96</u>
Total	<u>154</u>

Town of Groton, Massachusetts
Notes to the Required Supplementary Information
June 30, 2014

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

(B) Pension Plans

1. Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

2. Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Middlesex Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.

3. Actuarial Assumptions

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2014 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI LIABILITY AMORTIZED IN LEVEL PAYMENTS
Remaining Amortization Period	As of July 1, 2012, 7 years remaining for the 2002 ERI liability; 8 years remaining for the 2003 ERI liability; 10 years remaining for the 2010 ERI liability and 23 years for the remaining unfunded liability.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period as described by Revenue Procedure 2000-40.
Actuarial Assumptions:	
Investment Rate of Return	8.00% (previously 8.125%)
Projected Salary Increases	4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$14,000 of retirement income, (previously, 3.00% of the first \$12,000 of retirement income).

Plan Membership:

Retired Participants and Beneficiaries Receiving Benefits	4,886
Inactive Participants Entitled to a Return of their Employee Contributions	2,708
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	394
Active Participants	<u>8,979</u>
Total	<u>16,967</u>

(C) Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2014. These statements require the town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information, which is required to be disclosed by GASB 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 45, is presented following the notes to the financial statements.

Plan Description. The Town sponsors a single employer defined benefit health plan. The Town provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefits paid by the Town are on a pay-as-you-go basis. Currently there are approximately 96 active employees and 58 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

Funding Policy. The Town pays 80% of the premiums for the active employees and 65% for the retirees for health insurance, and 50% of the premiums for both the active employees and retirees for life insurance, with the employees/retirees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

Board of Selectmen
Town of Groton
173 Main Street
Groton, MA 01450

We have audited, in accordance with the 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, the basic financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Groton, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Groton's basic financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Groton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Groton's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Groton's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did issue a management letter dated February 23, 2015 that addresses issues (not significant deficiencies or material weaknesses) that we believe should be communicated to you.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Groton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
February 23, 2015