

**TOWN OF PEPPERELL, MASSACHUSETTS**

**Financial Statements**

**June 30, 2011**

**(With Accountants' Report Thereon)**

***Giusti, Hingston and Company***  
***Certified Public Accountants***

***36 Jackman St., Unit 1 \* Georgetown, MA 01833 \* (Tel) 978-352-7470***

Town of Pepperell, Massachusetts  
 FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2011  
 Table of Contents

	<u>Page #</u>
<b>Independent Auditors' Report</b>	1,2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b>	3-8
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements</b>	
• Statement of Net Assets	9
• Statement of Activities	10
<b>Fund Financial Statements</b>	
• Balance Sheet - Governmental Funds	11
• Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Assets	13
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
• Statement of Net Assets – Proprietary Funds	15
• Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds	16
• Statement of Cash Flows – Proprietary Funds	17
<b>Notes to the Financial Statements</b>	18-34
<b>Required Supplementary Information</b>	
• Statement of Revenues and Expenditures – Budget and Actual - General Fund (Budgetary Basis)	36
• Middlesex Retirement System – Schedule of Funding Progress	37
• Middlesex Retirement System – Schedule of Employer’s Contributions	38
• GASB 45 – Schedule of Funding Progress	39
• GASB 45 – Valuation Details	40
• Notes to the Required Supplementary Information	41-43

Town of Pepperell, Massachusetts  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011  
Table of Contents

**Page #**

<b>Report on Compliance and on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i></b>	44,45
--	-------

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS - TOWN  
OF PEPPERELL, MASSACHUSETTS

Board of Selectmen  
Town of Pepperell  
1 Main Street  
Pepperell, MA 01463

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 Pepperell, Massachusetts as of and for the year ended June 30, 2011, 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 Pepperell, Massachusetts' management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Pepperell, Massachusetts as of June 30, 2011 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 27, 2012 on our consideration of the Town of Pepperell, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the retirement system schedules and the other post employment benefit schedules listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
June 27, 2012

**Town of Pepperell, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2011**

As management of the Town of Pepperell, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Pepperell, Massachusetts for the fiscal year ended June 30, 2011.

**Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2011 basic financial statements. The Town of Pepperell, 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.

The assets of the Town of Pepperell, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$44,092,747 (net assets). Of this amount, \$4,860,422 is considered unrestricted (unrestricted net assets). The unrestricted net assets of the Town's governmental activities are \$2,626,191 and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net assets of business-type activities are \$2,234,231 and may be used to meet the ongoing obligations of the Town's Business-type activities.

The total revenues (including special items) for fiscal year 2011 was \$22,118,583, of which \$18,771,132 was from governmental activities, and \$3,347,451 from Business-type activities.

The total cost of all Town services for fiscal year 2011 was \$23,683,076, of which \$19,950,721 was for governmental services, and \$3,732,355 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,099,605 or 11 percent of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt increased by \$4,251,762 or 40 percent during the year.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 sewer, water, and transfer station activities. 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 Pepperell, 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 Pepperell, Massachusetts can be divided into two categories: governmental 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 Pepperell, 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 Pepperell, Massachusetts uses enterprise funds to account for its Sewer, Water and Transfer Station activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

### **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 assets. 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 assets.
- 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 Assets**

Net assets may serve over time as a useful indicator of a government’s financial position. However, the net assets 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 assets for the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 5,648,798	\$ 6,366,989	\$ 6,102,735	\$ 5,450,716	\$ 11,751,533	\$ 11,817,705
Capital Assets	16,644,351	16,943,870	33,265,181	31,578,592	49,909,532	48,522,462
Total Assets	<u>22,293,149</u>	<u>23,310,859</u>	<u>39,367,916</u>	<u>37,029,308</u>	<u>61,661,065</u>	<u>60,340,167</u>
Other Liabilities	1,122,026	809,246	1,322,908	2,946,425	2,444,934	3,755,671
Long Term Liabilities	2,451,804	2,582,615	12,671,580	8,344,641	15,123,384	10,927,256
Total Liabilities	<u>3,573,830</u>	<u>3,391,861</u>	<u>13,994,488</u>	<u>11,291,066</u>	<u>17,568,318</u>	<u>14,682,927</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	14,742,413	15,195,870	20,151,122	21,649,680	34,893,535	36,845,550
Restricted	1,350,715	1,880,802	2,988,075	3,008,556	4,338,790	4,889,358
Unrestricted	2,626,191	2,842,326	2,234,231	1,080,006	4,860,422	3,922,332
Total Net Assets	<u>\$ 18,719,319</u>	<u>\$ 19,918,998</u>	<u>\$ 25,373,428</u>	<u>\$ 25,738,242</u>	<u>\$ 44,092,747</u>	<u>\$ 45,657,240</u>

The net assets of the Town (including prior period adjustments), decreased by (\$1,564,493). The net assets of the governmental activities decreased by (\$1,199,679) or 6% and the net assets of the business-type activities decreased by (\$364,814) or 1%.



## Changes in Net Assets

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 575,892	\$ 543,022	\$ 3,162,091	\$ 2,956,786	\$ 3,737,983	\$ 3,499,808
Operating Grants and Contributions	243,223	602,788	80,286	88,595	323,509	691,383
Capital Grants and Contributions	-	1,277,187	105,074	1,267,817	105,074	2,545,004
General Revenues:						
Property Taxes	15,161,274	14,683,317	-	-	15,161,274	14,683,317
Motor Vehicle and Other Excises	1,221,913	1,197,901	-	-	1,221,913	1,197,901
Intergovernmental Not Restricted to a Specific Program	1,389,226	1,353,333	-	-	1,389,226	1,353,333
Other	179,604	192,536	-	20,318	179,604	212,854
<b>Total Revenues</b>	<u>18,771,132</u>	<u>19,850,084</u>	<u>3,347,451</u>	<u>4,333,516</u>	<u>22,118,583</u>	<u>24,183,600</u>
<b>Expenses</b>						
General Government	1,192,015	1,074,331	-	-	1,192,015	1,074,331
Public Safety	2,856,505	2,685,952	-	-	2,856,505	2,685,952
Education	11,390,738	11,306,420	-	-	11,390,738	11,306,420
Highways and Public Works	1,839,774	1,500,342	-	-	1,839,774	1,500,342
Human Services	329,486	336,736	-	-	329,486	336,736
Culture and Recreation	665,021	664,576	-	-	665,021	664,576
Employee Benefits	1,600,984	1,632,550	-	-	1,600,984	1,632,550
Debt Service	76,198	88,400	-	-	76,198	88,400
Sewer	-	-	2,016,567	1,964,353	2,016,567	1,964,353
Water	-	-	1,353,378	1,416,302	1,353,378	1,416,302
Transfer Station	-	-	362,410	367,242	362,410	367,242
<b>Total Expenses</b>	<u>19,950,721</u>	<u>19,289,307</u>	<u>3,732,355</u>	<u>3,747,897</u>	<u>23,683,076</u>	<u>23,037,204</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers	(1,179,589)	560,777	(384,904)	585,619	(1,564,493)	1,146,396
Special Items and Transfers	(20,090)	-	20,090	-	-	-
Increase (Decrease) in Net Assets	<u>\$ (1,199,679)</u>	<u>\$ 560,777</u>	<u>\$ (364,814)</u>	<u>\$ 585,619</u>	<u>\$ (1,564,493)</u>	<u>\$ 1,146,396</u>

### Governmental Activities

In fiscal year 2011, property taxes accounted for approximately 81% of the revenues.

### Business-type Activities

Sewer and water rates are structured to cover all costs related to each activity.

## *Financial Analysis of the Town's Funds*

### Governmental Funds

General Fund – The year end fund balances of the general fund were \$829,319 more than the prior year's fund balances.

The following table reflects the trend in all the components of fund balance (general fund) for the last five fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>For Special Purpose</u>	<u>Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2007	\$ 167,088	\$ -	\$ -	\$ 1,878,624	\$ 2,045,712
2008	188,128	-	477,859	1,112,907	1,778,894
2009	146,823	-	521,765	861,643	1,530,231
2010	116,417	-	237,129	1,321,804	1,675,350

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows. In addition, in accordance with GASB 54 requirements, the Stabilization Fund Balance (\$661,472) has been reported as a component of the general fund, unassigned fund balance, as of June 30, 2011.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$ -	-	\$ 405,064	\$ 2,099,605	\$ 2,504,669

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

Total net assets of the Proprietary Funds at the end of the year amounted to \$25,658,383.

### ***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 Pepperell, Massachusetts' investments in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$49,909,531 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 7,278,881	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,640,825	\$ 8,640,825
Construction in Progress	-	-	2,985,535	1,122,294	2,985,535	1,122,294
Buildings	4,559,813	4,768,771	1,322,560	1,383,794	5,882,373	6,152,565
Improvements Other Than Buildings	165,047	181,270	79,478	89,354	244,525	270,624
Infrastructure	3,047,540	3,306,330	27,246,845	27,287,188	30,294,385	30,593,518
Equipment	296,409	349,876	165,180	192,337	461,589	542,213
Vehicles	1,296,661	1,058,742	103,638	141,681	1,400,299	1,200,423
Total	<u>\$ 16,644,351</u>	<u>\$ 16,943,870</u>	<u>\$ 33,265,180</u>	<u>\$ 31,578,592</u>	<u>\$ 49,909,531</u>	<u>\$ 48,522,462</u>

## ***Debt***

The Town had \$14,747,058 in bonds outstanding on June 30, 2011. This represents a \$4,251,762 increase.

<b>Governmental Activities</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
General Obligation Bonds Payable	\$ 1,633,000	\$ 1,960,000
<b>Business-type Activities</b>		
Sewer	9,632,958	6,711,296
Water	3,481,100	1,824,000
Enterprise Bonds Payable	13,114,058	8,535,296
Total Debt	<u>\$ 14,747,058</u>	<u>\$ 10,495,296</u>

## ***Fiscal Year 2012 Budget***

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that Town 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 2012 budget.

Town of Pepperell, Massachusetts  
Statement of Net Assets  
June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	Government - Wide <u>Total</u>
<b>Assets</b>			
Current:			
Cash/Investments	\$ 4,304,259	\$ 3,679,849	\$ 7,984,108
Receivables:			
Property Taxes	413,446	-	413,446
Tax Liens	363,257	-	363,257
Excises	127,017	-	127,017
User Charges	407,608	733,346	1,140,954
Deferred Property Taxes	33,211	-	33,211
Liens	-	65,140	65,140
Special Assessment	-	29,520	29,520
Other	-	23,164	23,164
Noncurrent:			
Deferred Special Assessments	-	1,571,716	1,571,716
Capital Assets:			
Assets Not Being Depreciated	7,278,881	4,347,479	11,626,360
Assets Being Depreciated, Net	9,365,470	28,917,702	38,283,172
<b>Total Assets</b>	<b>22,293,149</b>	<b>39,367,916</b>	<b>61,661,065</b>
 <b>Liabilities</b>			
Current:			
Warrants Payable	199,767	247,325	447,092
Employees' Withholding Payable	58,908	-	58,908
Intergovernmental	(2,082)	2,430	348
Unclaimed Checks	22,983	-	22,983
Bond Anticipation Notes Payable	350,000	-	350,000
Guarantee Deposits	159,007	-	159,007
Accrued Interest	9,443	197,072	206,515
Bonds Payable	324,000	876,081	1,200,081
Noncurrent:			
Bonds Payable	1,309,000	12,237,977	13,546,977
Unamortized Premium on Bonds	-	256,626	256,626
Compensated Absences	416,732	-	416,732
Other Post Employment Benefit Obligations	726,072	176,977	903,049
<b>Total Liabilities</b>	<b>3,573,830</b>	<b>13,994,488</b>	<b>17,568,318</b>
 <b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	14,742,413	20,151,122	34,893,535
Restricted for:			
Debt Service	-	2,988,075	2,988,075
Special Revenue	885,613	-	885,613
Perpetual Funds:			
Expendable	186,418	-	186,418
Nonexpendable	278,684	-	278,684
Unrestricted	2,626,191	2,234,231	4,860,422
<b>Total Net Assets</b>	<b>\$ 18,719,319</b>	<b>\$ 25,373,428</b>	<b>\$ 44,092,747</b>

Town of Pepperell, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 1,192,015	\$ 144,266	\$ 3,120	\$ -	\$ (1,044,629)	\$ -	\$ (1,044,629)
Public Safety	2,856,505	414,550	189,052	-	(2,252,903)	-	(2,252,903)
Education	11,390,738	-	-	-	(11,390,738)	-	(11,390,738)
Highways and Public Works	1,839,774	575	(65,864)	-	(1,905,063)	-	(1,905,063)
Human Services	329,486	16,481	10,842	-	(302,163)	-	(302,163)
Culture and Recreation	665,021	20	106,073	-	(558,928)	-	(558,928)
Employee Benefits	1,600,984	-	-	-	(1,600,984)	-	(1,600,984)
Debt Service	76,198	-	-	-	(76,198)	-	(76,198)
<b>Total Governmental Activities</b>	<b>19,950,721</b>	<b>575,892</b>	<b>243,223</b>	<b>-</b>	<b>(19,131,606)</b>	<b>-</b>	<b>(19,131,606)</b>
<i>Business-Type Activities:</i>							
Sewer	2,016,567	1,607,327	72,030	105,074	-	(232,136)	(232,136)
Water	1,353,378	1,259,966	8,256	-	-	(85,156)	(85,156)
Transfer Station	362,410	294,798	-	-	-	(67,612)	(67,612)
<b>Total Business-Type Activities</b>	<b>3,732,355</b>	<b>3,162,091</b>	<b>80,286</b>	<b>105,074</b>	<b>-</b>	<b>(384,904)</b>	<b>(384,904)</b>
<b>Total</b>	<b>\$ 23,683,076</b>	<b>\$ 3,737,983</b>	<b>\$ 323,509</b>	<b>\$ 105,074</b>	<b>(19,131,606)</b>	<b>(384,904)</b>	<b>(19,516,510)</b>
<i>General Revenues:</i>							
Property Taxes					15,161,274	-	15,161,274
Motor Vehicle and Other Excise Taxes					1,221,913	-	1,221,913
Penalties and Interest on taxes					82,409	-	82,409
Intergovernmental					1,389,226	-	1,389,226
Interest and Investment Income					89,343	-	89,343
Other Revenue					7,852	-	7,852
Transfers In (Out)					(20,090)	20,090	-
<b>Total General Revenues, Special Items and Transfers</b>					<b>17,931,927</b>	<b>20,090</b>	<b>17,952,017</b>
<b>Change in Net Assets</b>					<b>(1,199,679)</b>	<b>(364,814)</b>	<b>(1,564,493)</b>
<i>Net Assets:</i>							
Beginning of the Year					19,918,998	25,738,242	45,657,240
End of the Year					<b>\$ 18,719,319</b>	<b>\$ 25,373,428</b>	<b>\$ 44,092,747</b>

Town of Pepperell, Massachusetts  
 Governmental Funds  
 Balance Sheet  
 June 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 2,617,995	\$ 1,686,264	\$ 4,304,259
Receivables:			
Property Taxes	413,446	-	413,446
Tax Liens	363,257	-	363,257
Excises	127,017	-	127,017
User Charges	-	407,608	407,608
Deferred Property Taxes	33,211	-	33,211
Tax Foreclosures	30,911	-	30,911
Total Assets	\$ 3,585,837	\$ 2,093,872	\$ 5,679,709
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 168,914	\$ 30,853	\$ 199,767
Employees' Withholding Payable	58,908	-	58,908
Guarantee Deposits	-	159,007	159,007
Intergovernmental	-	(2,082)	(2,082)
Unclaimed Checks	-	22,983	22,983
Bonds Anticipation Notes Payable	-	350,000	350,000
Deferred Revenue:			
Property Taxes	389,214	-	389,214
Tax Liens	363,257	-	363,257
Excises	69,964	-	69,964
Tax Foreclosures	30,911	-	30,911
User Charges	-	407,609	407,609
Total Liabilities	1,081,168	968,370	2,049,538
Fund Equity:			
Fund Balances:			
Nonspendable	-	278,684	278,684
Restricted	-	592,715	592,715
Committed	-	523,041	523,041
Assigned	405,064	-	405,064
Unassigned	2,099,605	(268,938)	1,830,667
Total Fund Balances	2,504,669	1,125,502	3,630,171
Total Liabilities and Fund Balances	\$ 3,585,837	\$ 2,093,872	\$ 5,679,709

Town of Pepperell, Massachusetts  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Fiscal Year Ended June 30, 2011

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 15,137,487	\$ -	\$ 15,137,487
Excises	1,200,719	-	1,200,719
Penalties and Interest	82,409	-	82,409
Licenses and Permits	140,042	-	140,042
Fees and Other Departmental	139,146	279,493	418,639
Intergovernmental	1,389,226	738,762	2,127,988
Earnings on Investments	81,023	15,324	96,347
Contributions	-	18,163	18,163
Miscellaneous	5,839	14,401	20,240
Total Revenues	<u>18,175,891</u>	<u>1,066,143</u>	<u>19,242,034</u>
<u>Expenditures:</u>			
General Government	1,002,458	145,507	1,147,965
Public Safety	2,292,330	778,748	3,071,078
Education	11,295,191	1,000	11,296,191
Intergovernmental	26,486	-	26,486
Highways and Public Works	999,382	535,404	1,534,786
Human Services	286,528	10,956	297,484
Culture and Recreation	528,971	87,480	616,451
Employee Benefits	1,391,374	-	1,391,374
Debt Service	405,782	-	405,782
Total Expenditures	<u>18,228,502</u>	<u>1,559,095</u>	<u>19,787,597</u>
Excess of Revenues Over (Under) Expenditures	<u>(52,611)</u>	<u>(492,952)</u>	<u>(545,563)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	250,000	-	250,000
Operating Transfers (Out)	(20,090)	(250,000)	(270,090)
Total Other Financing Sources (Uses)	<u>229,910</u>	<u>(250,000)</u>	<u>(20,090)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>177,299</u>	<u>(742,952)</u>	<u>(565,653)</u>
Fund Balance, Beginning	<u>1,675,350</u>	<u>2,520,474</u>	<u>4,195,824</u>
Prior Period Adjustment	<u>652,020</u>	<u>(652,020)</u>	<u>-</u>
Fund Balance, Beginning as Restated	<u>2,327,370</u>	<u>1,868,454</u>	<u>4,195,824</u>
Fund Balance, Ending	<u>\$ 2,504,669</u>	<u>\$ 1,125,502</u>	<u>\$ 3,630,171</u>

Town of Pepperell, Massachusetts  
 Reconciliation of the Governmental Funds Balance Sheet  
 Total Fund Balances to the Statement of Net Assets  
 Fiscal Year Ended June 30, 2011

Total governmental fund balances	\$	3,630,171
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		16,644,351
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,230,044
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(1,633,000)
Accrued Interest on Bonds		(9,443)
Other Post Employment Benefit Obligations		(726,072)
Compensated Absences		(416,732)
		<u>(416,732)</u>
Net assets of governmental activities	\$	<u><u>18,719,319</u></u>



Town of Pepperell, 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, 2011

Net change in fund balances - total governmental funds	\$ (565,653)
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 capital outlays exceeded depreciation in the current period.	(299,519)
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.	(470,902)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 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.	327,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount is the net result of accrued long-term debt interest.	2,584
Some expenses reported in the Statement of Activities, such as compensated absences and other post employment 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 change in these items.	<u>(193,189)</u>
Change in net assets of governmental activities	<u><u>\$ (1,199,679)</u></u>

Town of Pepperell, Massachusetts  
Proprietary Funds  
Statement of Net Assets  
June 30, 2011

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
<b>Assets</b>				
Current:				
Cash and Cash Investments	\$ 2,113,689	\$ 1,483,361	\$ 82,799	\$ 3,679,849
Receivables, Net of Allowance for Uncollectibles:				
User Charges	384,920	348,426	-	733,346
Liens	43,813	21,327	-	65,140
Special Assessments	29,520	-	-	29,520
Other	23,164	-	-	23,164
Noncurrent:				
Deferred Special Assessments	1,571,716	-	-	1,571,716
Assets Not Being Depreciated	1,718,952	2,272,624	355,903	4,347,479
Assets Being Depreciated, Net	18,959,770	9,545,408	412,524	28,917,702
<b>Total Assets</b>	<u>24,845,544</u>	<u>13,671,146</u>	<u>851,226</u>	<u>39,367,916</u>
<b>Liabilities</b>				
Current:				
Warrants Payable	59,191	162,979	25,155	247,325
Intergovernmental	-	2,430	-	2,430
Accrued Interest Payable	156,835	40,237	-	197,072
Bonds Payable	656,981	219,100	-	876,081
Unamortized Premium on Bonds	256,626	-	-	256,626
Noncurrent:				
Bonds Payable	8,975,977	3,262,000	-	12,237,977
Other Post Employment Benefit Obligations	92,947	53,138	30,892	176,977
<b>Total Liabilities</b>	<u>10,198,557</u>	<u>3,739,884</u>	<u>56,047</u>	<u>13,994,488</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	11,045,764	8,336,930	768,428	20,151,122
Restricted for:				
Debt Service	2,988,075	-	-	2,988,075
Unrestricted	613,148	1,594,332	26,751	2,234,231
<b>Total Net Assets</b>	<u>\$ 14,646,987</u>	<u>\$ 9,931,262</u>	<u>\$ 795,179</u>	<u>\$ 25,373,428</u>

Town of Pepperell, Massachusetts  
Statement of Revenue, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
Fiscal Year Ended June 30, 2011

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Operating Revenues:				
Charges for Services	\$ 1,607,327	\$ 1,259,966	\$ 294,798	\$ 3,162,091
Special Assessments	105,074	-	-	105,074
<b>Total Operating Revenues</b>	<b>1,712,401</b>	<b>1,259,966</b>	<b>294,798</b>	<b>3,267,165</b>
Operating Expenditures:				
Personal Services	554,027	401,778	145,319	1,101,124
Nonpersonal Service	404,406	484,952	180,947	1,070,305
Depreciation	644,659	331,741	36,144	1,012,544
<b>Total Operating Expenditures</b>	<b>1,603,092</b>	<b>1,218,471</b>	<b>362,410</b>	<b>3,183,973</b>
<b>Operating Income (Loss)</b>	<b>109,309</b>	<b>41,495</b>	<b>(67,612)</b>	<b>83,192</b>
Nonoperating Revenues (Expenses):				
Intergovernmental	23,340	-	-	23,340
Earnings on Investments	48,690	8,256	-	56,946
Interest on Debt	(413,475)	(134,907)	-	(548,382)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(341,445)</b>	<b>(126,651)</b>	<b>-</b>	<b>(468,096)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>(232,136)</b>	<b>(85,156)</b>	<b>(67,612)</b>	<b>(384,904)</b>
Operating Transfers In	20,090	-	-	20,090
<b>Total Contributions and Transfers</b>	<b>20,090</b>	<b>-</b>	<b>-</b>	<b>20,090</b>
<b>Change in Net Assets</b>	<b>(212,046)</b>	<b>(85,156)</b>	<b>(67,612)</b>	<b>(364,814)</b>
<b>Total Net Assets July 1, 2010</b>	<b>14,859,033</b>	<b>10,016,418</b>	<b>862,791</b>	<b>25,738,242</b>
<b>Total Net Assets June 30, 2011</b>	<b>\$ 14,646,987</b>	<b>\$ 9,931,262</b>	<b>\$ 795,179</b>	<b>\$ 25,373,428</b>

Town of Pepperell, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2011

	<u>Business-Type Activities</u>			
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 1,905,687	\$ 1,233,009	\$ 294,798	\$ 3,433,494
Payments to Employees	(558,913)	(417,876)	(148,219)	(1,125,008)
Payments to Vendors	(328,222)	(372,762)	(180,553)	(881,537)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,018,552</u>	<u>442,371</u>	<u>(33,974)</u>	<u>1,426,949</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	23,340	-	-	23,340
Transfer from Other Funds	20,090	-	-	20,090
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>43,430</u>	<u>-</u>	<u>-</u>	<u>43,430</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(1,556,214)	(1,142,917)	-	(2,699,131)
Payment of Bond Anticipation Note	(1,633,850)	(467,500)	-	(2,101,350)
Proceed from Bonds	3,389,149	1,779,100	-	5,168,249
Principal Payments on Notes and Bonds	(467,487)	(122,000)	-	(589,487)
Interest Expense	(377,995)	(109,213)	-	(487,208)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(646,397)</u>	<u>(62,530)</u>	<u>-</u>	<u>(708,927)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	48,690	8,256	-	56,946
Net Cash Flows Provided (Used) by Investing Activities	<u>48,690</u>	<u>8,256</u>	<u>-</u>	<u>56,946</u>
Net Increase (Decrease) in Cash and Cash Equivalents	464,275	388,097	(33,974)	818,398
Cash and Cash Equivalents, July 1, 2010	<u>1,649,414</u>	<u>1,095,264</u>	<u>116,773</u>	<u>2,861,451</u>
Cash and Cash Equivalents, June 30, 2011	<u>\$ 2,113,689</u>	<u>\$ 1,483,361</u>	<u>\$ 82,799</u>	<u>\$ 3,679,849</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 109,309	\$ 41,495	\$ (67,612)	\$ 83,192
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	644,659	331,741	36,144	1,012,544
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	193,286	(26,957)	-	166,329
Warrants and Accounts Payable	71,298	96,092	(2,506)	164,884
Net Cash Provided by Operating Activities	<u>\$ 1,018,552</u>	<u>\$ 442,371</u>	<u>\$ (33,974)</u>	<u>\$ 1,426,949</u>

Town of Pepperell, Massachusetts  
Notes to the Financial Statements  
June 30, 2011

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2011. The report includes all the services provided by the Town to its residents and businesses within its boundaries. Municipal services provided include public safety, recreation, public works, library, water and sewer 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 Pepperell, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2011 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

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 (in the fund financial statements) under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated 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:

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

**Water Fund** – This fund accounts for activities related to the operation of the water system.

**Transfer Station** – This fund accounts for activities related to the operation of the Transfer Station.

(C) Budgetary Data

i) General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Town Accountant, then to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until the annual Town meeting warrant is finalized, 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 fiscal year 2011. The budget amounts include special Town meeting votes applicable to fiscal year 2011 and any reserve fund transfers authorized by the Finance Committee.

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

	<u>Revenues</u>
As Reported Budget Basis	\$ 18,137,669
Adjustments:	
Sixty Day Property Tax Accrual - Net	28,769
GASB 54 - Stabilization Interest Earnings	9,453
As Reported GAAP Statement	<u>\$ 18,175,891</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 18,206,913
Adjustments:	
July 1, 2010 Encumbrances	116,417
June 30, 2011 Encumbrances	(94,828)
As Reported GAAP Statement	<u>\$ 18,228,502</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 \$15,000 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 that 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 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

(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 list below.

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

2. **Restricted**, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution 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 and or Town meeting (the Town's highest level of decision-making authority). Committed fund balance cannot be used for any other purpose unless the same formal action that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose.



4. **Assigned**, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but does not meet the criteria to be classified as restricted or committed, and

5. **Unassigned**, the residual classification for the government’s general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

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>	<u>Non Major Funds</u>	<u>Total</u>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Permanent Fund Principal	\$ -	\$ 278,684	\$ 278,684
<b>Total Nonspendable</b>	<u>-</u>	<u>278,684</u>	<u>278,684</u>
<b>Restricted for:</b>			
General Government	-	93,507	93,507
Education	-	31,942	31,942
Public Safety	-	13,690	13,690
Culture and Recreation	-	363,889	363,889
Public Works	-	42,453	42,453
Human Services	-	47,234	47,234
<b>Total Restricted</b>	<u>-</u>	<u>592,715</u>	<u>592,715</u>
<b>Committed to:</b>			
General Government	-	430,742	430,742
Public Safety	-	26,104	26,104
Culture and Recreation	-	20,592	20,592
Public Works	-	44,371	44,371
Human Services	-	1,232	1,232
<b>Total Committed</b>	<u>-</u>	<u>523,041</u>	<u>523,041</u>
<b>Assigned to:</b>			
Reduce the Tax Rate	310,237	-	310,237
General Government	32,617	-	32,617
Public Safety	24,674	-	24,674
Public Works	31,257	-	31,257
Human Services	500	-	500
Culture and Recreation	5,779	-	5,779
<b>Total Assigned</b>	<u>405,064</u>	<u>-</u>	<u>405,064</u>
<b>Unassigned</b>	<u>2,099,605</u>	<u>(268,938)</u>	<u>1,830,667</u>
<b>Total Fund Balances</b>	<u>\$ 2,504,669</u>	<u>\$ 1,125,502</u>	<u>\$ 3,630,171</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 \$661,473. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet, in accordance with GASB 54.

### (F) Capital Assets:

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Land	\$ 7,278,881	\$ -	\$ -	\$ 7,278,881
Total Capital Assets Not Being Depreciated	<u>7,278,881</u>	<u>-</u>	<u>-</u>	<u>7,278,881</u>
Assets Being Depreciated:				
Buildings	9,078,134	-	-	9,078,134
Improvements Other Than Buildings	468,053	-	-	468,053
Infrastructure	11,465,912	-	-	11,465,912
Equipment	1,052,411	-	-	1,052,411
Vehicles	2,758,544	401,746	-	3,160,290
Total Capital Assets Being Depreciated	<u>24,823,054</u>	<u>401,746</u>	<u>-</u>	<u>25,224,800</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Buildings	(4,309,363)	(208,958)	-	(4,518,321)
Improvements Other Than Buildings	(286,783)	(16,223)	-	(303,006)
Infrastructure	(8,159,582)	(258,790)	-	(8,418,372)
Equipment	(702,535)	(53,467)	-	(756,002)
Vehicles	(1,699,802)	(163,827)	-	(1,863,629)
Total Accumulated Depreciation	<u>(15,158,065)</u>	<u>(701,265)</u>	<u>-</u>	<u>(15,859,330)</u>
Capital Assets Being Depreciated, Net	<u>9,664,989</u>	<u>(299,519)</u>	<u>-</u>	<u>9,365,470</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,943,870</u>	<u>\$ (299,519)</u>	<u>\$ -</u>	<u>\$ 16,644,351</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 28,596
Public Safety	171,965
Education	94,547
Highways and Public Works	325,155
Human Services	33,934
Culture and Recreation	47,068
Total Governmental Activities Depreciation Expense	<u>\$ 701,265</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	1,122,294	2,699,131	(835,890)	2,985,535
Total Capital Assets Not Being Depreciated	<u>2,484,238</u>	<u>2,699,131</u>	<u>(835,890)</u>	<u>4,347,479</u>
Assets Being Depreciated:				
Buildings	2,449,362	-	-	2,449,362
Improvements Other Than Buildings	285,114	-	-	285,114
Infrastructure	41,883,506	835,890	-	42,719,396
Equipment	448,167	-	-	448,167
Vehicles	717,244	-	-	717,244
Total Capital Assets Being Depreciated	<u>45,783,393</u>	<u>835,890</u>	<u>-</u>	<u>46,619,283</u>
Less Accumulated Depreciation for:				
Buildings	(1,065,568)	(61,234)	-	(1,126,802)
Improvements Other Than Buildings	(195,760)	(9,876)	-	(205,636)
Infrastructure	(14,596,318)	(876,233)	-	(15,472,551)
Equipment	(255,830)	(27,157)	-	(282,987)
Vehicles	(575,563)	(38,043)	-	(613,606)
Total Accumulated Depreciation	<u>(16,689,039)</u>	<u>(1,012,543)</u>	<u>-</u>	<u>(17,701,582)</u>
Capital Assets Being Depreciated, Net	<u>29,094,354</u>	<u>(176,653)</u>	<u>-</u>	<u>28,917,701</u>
Business-Type Activities Capital Assets, Net	<u>\$ 31,578,592</u>	<u>\$ 2,522,478</u>	<u>\$ (835,890)</u>	<u>\$ 33,265,180</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 644,659
Water	331,741
Transfer Station	36,143
Total Business-type Activities Depreciation Expense	<u>\$ 1,012,543</u>

(G) Assets, Liabilities and Fund Equity

(i) Cash and Investments

The Town's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of six months or less months from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Depository Trust ("MMDT").

MMDT is professionally managed by Fidelity Management and Research Company and uses extensive credit research and prudent management technique methods to preserve the principal value of the Trust. Investments are in a broad range of high quality U.S. dollar denominated money market instruments of domestic and foreign issuers.

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. As of June 30, 2011, \$735,523 of the Town's bank balance of \$6,357,254 was exposed to credit risk as follows:

Uninsured and Uncollateralized	<u>\$735,523</u>
--------------------------------	------------------

## 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, 2011, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
U. S. Government Obligations	\$ 592,255	\$ 105,421	\$ 486,834	\$ -
Corporation Notes and Bonds	113,815	-	113,815	-
Total	<u>\$ 706,070</u>	<u>\$ 105,421</u>	<u>\$ 600,649</u>	<u>\$ -</u>

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

## Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment “legal list” that the Town follows. As of June 30, 2011, the Town’s investment in the U.S. Government Obligations was rated AAA by Standard & Poor.

## 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. More than five percent (34%) 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. Preliminary tax bills are mailed out by July 1st, payable in two equal installments. The first two installments are due on August 1st and November 1st. These bills are based on the prior year’s net tax on the property. Actual bills are mailed on or before December 31st. The balance remaining (after the preliminary tax previously committed is credited against the actual tax) is payable in two equal installments. Payments are due on February 1st and May 1st, respectively.

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.

(H) Interfund Transfers, Compensated Absences, Pension Plans and Other Post Employment Benefits

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:

	<u>Transfers In</u>	<u>Transfers (Out)</u>	<u>Total</u>
General	\$ 250,000	\$ (20,090)	\$ 229,910
Non-major Governmental	-	(250,000)	(250,000)
Enterprise - Business Type	20,090	-	20,090
Total	<u>\$ 270,090</u>	<u>\$ (270,090)</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 are considered for 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, 2011, 2010 and 2009 were \$548,026, \$658,167 and \$679,298, respectively, equal to 100% of the required contribution each year.

I. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

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, 2011. 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 that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Middlesex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 64 active employees and 43 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays 70% of the premiums for health insurance premiums for the retirees. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town 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 43 and 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, 2011, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$496,411
Interest on Net OPEB Obligation	26,347
Adjustment to Annual Required Contribution	(36,626)
Annual OPEB Cost (Expense)	<u>486,132</u>
Contributions Made	(241,751)
Increase in Net OPEB Obligation	<u>244,381</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>658,668</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$903,049</u></u>

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2009	\$454,640	27.6%	\$329,334
6/30/2010	\$454,640	27.6%	\$658,668
6/30/2011	\$486,132	49.7%	\$903,049

- c. **Funded Status and Funding Progress.** As of July 1, 2010, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$7,393,195, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$7,393,195.

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 (when available) about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2010, 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), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 13 percent initially, reduced by decrements of 1 percent annually to an ultimate rate of 5 percent in year 2015. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

### III. Detail Notes on All Funds

#### (A) Accounts Receivable

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

#### Governmental Activities

##### Property Taxes Receivable:

##### Real Estate Taxes

2011	\$ 288,246	
2010	113,428	
2009	2,699	
2008	680	
	<u>          </u>	
Total Real Estate Taxes		<u>\$ 405,053</u>

##### Personal Property Taxes

2011	\$ 3,280	
2010	2,797	
2009	917	
2008	897	
2007	357	
2006 and prior	145	
	<u>          </u>	
Total Personal Property Taxes		<u>\$ 8,393</u>

Total Property Taxes Receivable		<u>\$ 413,446</u>
---------------------------------	--	-------------------

(A) Accounts Receivable (Continued)

Tax Liens		<u>\$ 363,257</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2011	\$ 85,083	
2010	22,934	
2009	9,040	
2008	7,963	
2007	2,135	
2006	<u>(139)</u>	
Tax Excise Receivable		<u>\$ 127,016</u>
Charges for Services:		
Ambulance		<u>\$ 407,608</u>
Deferred Property Taxes		<u>\$ 33,211</u>
<b><u>Business Type Activities:</u></b>		
User Charges:		
Sewer	\$384,920	
Water	<u>348,426</u>	
Total User Charges		<u>\$ 733,346</u>
Liens:		
Sewer Liens	\$ 43,813	
Water Liens	<u>21,329</u>	
Total Liens		<u>\$ 65,142</u>
Special Assessments:		
Current:		
Betterments		<u>\$ 29,520</u>
Other:		
Sewer Permits Receivable		<u>\$ 23,164</u>
Noncurrent:		
Deferred Sewer Betterments Not Yet Due		<u>\$ 1,571,716</u>

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2011 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
<u>Governmental Activities:</u>						
Fire Truck	\$0	\$350,000	\$0	\$350,000	3/1/2012	1.05%
Total	\$0	\$350,000	\$0	\$350,000		
<u>Business-Type Activities:</u>						
Water - Lines - Various	\$217,500	\$0	\$217,500	\$0	7/23/2010	1.65%
Water - Nashua Well Design	250,000	0	250,000	0	7/23/2010	1.65%
Sewer Extension Plans	101,850	0	101,850	0	7/23/2010	1.35%
Sewer - Fire Detection System	60,000	0	60,000	0	7/23/2010	1.65%
Sewer Design	150,000	0	150,000	0	7/23/2010	1.65%
Sewer Extension - Various	1,322,000	0	1,322,000	0	7/23/2010	1.65%
Total	\$2,101,350	\$0	\$2,101,350	\$0		

ii Long Term Debt

General obligation bonds outstanding at June 30, 2011, 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, 2011:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/2010	\$1,960,000	\$8,535,296	\$10,495,296
Add: New Issues	0	5,158,250	5,158,250
Proceeds Refunding Bonds	0	915,000	915,000
Payoff of refunded Debt	0	(905,000)	(905,000)
Less: Maturities	(327,000)	(589,488)	(916,488)
Balance 6/30/2011	\$1,633,000	\$13,114,058	\$14,747,058

(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>
2012	\$324,000	\$65,424	\$876,081	\$504,308
2013	220,000	54,323	862,376	474,873
2014	120,000	47,590	840,462	444,209
2015	119,000	42,733	845,139	414,727
2016	119,000	37,627	831,000	383,640
2017-2021	543,000	113,837	4,042,000	1,428,368
2022-2026	188,000	13,579	3,317,000	630,521
2027-2031	0	0	1,500,000	137,625
	\$1,633,000	\$375,113	\$13,114,058	\$4,418,271

(B) Liabilities (Continued)

- (c) On July 15, 2010, the Town issued \$915,000 of Refunding Bonds to refund \$905,000 of General Obligation Bonds. The net savings from this refunding issue was \$98,328. The principal and interest costs on the refunded debt and the refunding debt are shown below:

	Refunding Bonds Principal and <u>Interest</u>	Refunded Bonds Principal and <u>Interest</u>	Net <u>Savings</u>
2011	\$124,722	\$134,970	\$10,248
2012	126,376	135,737	9,361
2013	124,276	136,252	11,976
2014	127,126	136,511	9,385
2015	124,788	136,485	11,697
2016	127,113	136,169	9,056
2017	124,094	135,558	11,464
2018	120,787	134,647	13,860
2019	<u>127,026</u>	<u>138,307</u>	<u>11,281</u>
	<u>\$1,126,308</u>	<u>\$1,224,636</u>	<u>\$98,328</u>

(d) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (MWPAT) was created by Chapter 275 of the acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has bonded several issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	SRF <u>Subsidies</u>
2012	69,981
2013	67,309
2014	64,547
2015	61,675
2016-2020	260,855
2021-2025	<u>164,350</u>
Total Subsidies	<u>\$688,717</u>

(B) Liabilities (Continued)

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2011, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 4, 1998	Sewer Extension - Nashua Road	\$1,700,000
October 19, 1998	Sewer Extension - Lowell Road	300,000
October 28, 2002	Sewer Extension - Park Street	54,000
May 3, 2004	Water Main - Lowell Road	20,000
October 29, 2007	Sewer - Engineering	101,850
June 27, 2010	Fire Truck	350,000
	Total	<u>\$2,525,850</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2012 operating and capital budget of \$23,943,387. Fiscal 2012 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	\$ 18,590,652
Enterprise Fund Revenues and Available Funds	4,205,377
Other Available Funds	1,147,358
Total	<u>\$ 23,943,387</u>

V. 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.

VI. Prior Period Adjustment

A prior period adjustment of \$652,020 was made (to the fund financial statements) to reclassify the Stabilization Fund from the Special Revenue Fund to the General Fund in accordance with GASB 54 requirements.

# **REQUIRED SUPPLEMENTARY INFORMATION**

Town of Pepperell, Massachusetts  
Required Supplementary Information  
Statement of Revenues and Expenditures - Budget and Actual  
General Fund (Budgetary Basis)  
Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$ 15,050,171	\$ 15,050,171	\$ 15,080,044	\$ 29,873
Excises	1,150,000	1,150,000	1,229,393	79,393
Penalties and Interest	65,000	65,000	82,409	17,409
Licenses and Permits	145,500	145,500	140,042	(5,458)
Fees and Other Departmental	116,500	116,500	139,146	22,646
Intergovernmental	1,352,818	1,352,818	1,389,226	36,408
Earnings on Investments	50,000	50,000	71,570	21,570
Miscellaneous	2,500	2,500	5,839	3,339
Total Revenues	<u>17,932,489</u>	<u>17,932,489</u>	<u>18,137,669</u>	<u>205,180</u>
<u>Expenditures</u>				
Current:				
General Government	1,096,338	1,064,429	1,019,795	44,634
Public Safety	2,277,415	2,337,469	2,251,920	85,549
Education	11,295,192	11,295,191	11,295,191	-
Highway and Public Works	963,536	1,037,907	1,003,558	34,349
Health and Human Services	267,617	295,860	286,800	9,060
Culture and Recreation	518,924	533,908	526,007	7,901
Intergovernmental	26,486	26,486	26,486	-
Employee Benefits	1,551,495	1,541,495	1,391,374	150,121
Debt Service	406,182	406,182	405,782	400
Total Expenditures	<u>18,403,185</u>	<u>18,538,927</u>	<u>18,206,913</u>	<u>332,014</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(470,696)</u>	<u>(606,438)</u>	<u>(69,244)</u>	<u>537,194</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	250,000	250,000	250,000	-
Transfers Out	-	(20,090)	(20,090)	-
Other Available Funds	58,567	136,124	136,124	-
Free Cash	162,129	240,404	240,404	-
Total Other Financing Sources (Uses)	<u>470,696</u>	<u>606,438</u>	<u>606,438</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 537,194</u>	<u>\$ 537,194</u>

Middlesex 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%



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

<b>System Wide</b>				<b>Town of Pepperell</b>	
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%	\$ 308,283	1.10%
2002	30,248,147	30,248,147	100.00%	324,194	1.07%
2003	35,411,500	35,411,500	100.00%	367,205	1.04%
2004	52,902,366	52,902,366	100.00%	385,642	0.73%
2005	52,298,150	52,298,150	100.00%	345,818	0.66%
2006	60,169,717	60,169,717	100.00%	453,497	0.75%
2007	64,664,829	64,664,829	100.00%	510,972	0.79%
2008	72,050,318	72,050,318	100.00%	609,696	0.85%
2009	78,212,121	78,212,121	100.00%	679,298	0.87%

Town of Pepperell, Massachusetts  
 Required Supplementary Information - GASB 45  
 Schedule of Funding Progress  
 Fiscal Year Ended June 30, 2011

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

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)]
7/1/07	\$0	\$4,212,794	\$4,212,794	0%	\$5,176,000	81%
7/1/10	\$0	\$7,393,195	\$7,393,195	0%	\$3,907,274	189.2%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Town of Pepperell, Massachusetts  
 Required Supplementary Information - GASB 45  
 Valuation Details  
 Fiscal Year Ended June 30, 2011

---

Valuation Date	July 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	As Level Dollar Amount over 30 years
Remaining Amortization Period	28 Years at July 1, 2010
Asset Valuation Method	Market Value of the Plan's Assets

---

**Actuarial Assumptions:**

Investment Rate of Return	4.0%
Medical/Drug Cost Trend Rate	13.1% grading down to 5.0% in year 2015 and thereafter
Dental Cost Trend Rate	8.5% grading down to 5.0% in year 2015

Plan Membership:

Current retirees, beneficiaries, and dependents	43
Current active members	<u>64</u>
Total	<u>107</u>

---

Town of Pepperell, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2011

(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

<b>Valuation Date</b>	January 1, 2010
<b>Actuarial Cost Method</b>	Entry age normal cost method.
<b>Amortization Method</b>	Level dollar for the 2002, and 2003 Early Retirement Incentives (ERI) and increasing amortization for the remaining unfunded liability.
<b>Remaining Amortization Period</b>	As of July 1, 2009, 9 years remaining for the 2002 ERI liability; 10 years remaining for the 2003 ERI liability and 25 years for remaining unfunded liability.
<b>Asset Valuation Method</b>	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.
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.125% (previously, 8.25%)
Projected Salary Increases	4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$12,000 of retirement income, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012
<b>Plan Membership:</b>	
Retired Participants and Beneficiaries Receiving Benefits	4,833
Inactive Participants Entitled to a Return of their Employee Contributions	3,147
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	283
Active Participants	<u>9,093</u>
Total	<u>17,356</u>

(C) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

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, 2011. 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.

- a. **Plan Description.** The Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Middlesex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 64 active employees and 43 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays 70% of the health insurance premiums for retirees. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

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

Board of Selectmen  
Town of Pepperell  
1 Main Street  
Pepperell, MA 01463

We have audited the basic financial statements of the Town of Pepperell as of and for the year ended June 30, 2011, and have issued our report thereon dated June 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Pepperell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pepperell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Pepperell's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pepperell's financial statements are free of 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*.

We noted certain other matters that we reported to management of the Town of Pepperell, in a separate letter dated June 27, 2012.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
June 27, 2012