

TOWN OF PEPPERELL, MASSACHUSETTS

Financial Statements

June 30, 2012

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Pepperell, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2012
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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, 2012, 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, 2012 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 March 20, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, retirement system schedules and post employment benefit schedules 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 inquires 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.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 20, 2013

**Town of Pepperell, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2012**

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, 2012.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2012 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.

Financial Highlights

The assets of the Town of Pepperell, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$45,043,813 (net assets). Of this amount, \$4,455,151 is considered unrestricted (unrestricted net assets). The unrestricted net assets of the Town's governmental activities are \$2,351,350 and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net assets of business-type activities are \$2,103,801 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 2012 was \$24,734,128, of which \$19,909,732 was from governmental activities, and \$4,824,396 from Business-type activities.

The total cost of all Town services for fiscal year 2012 was \$23,783,062, of which \$20,105,205 was for governmental services, and \$3,677,857 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,280,186 or 12 percent of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt decreased by (\$1,180,081) or -8 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 6,122,143	\$ 5,648,798	\$ 6,936,032	\$ 6,102,735	\$ 13,058,175	\$ 11,751,533
Capital Assets	16,120,385	16,644,351	32,520,288	33,265,181	48,640,673	49,909,532
Total Assets	<u>22,242,528</u>	<u>22,293,149</u>	<u>39,456,320</u>	<u>39,367,916</u>	<u>61,698,848</u>	<u>61,661,065</u>
Other Liabilities	1,277,880	1,122,026	1,167,913	1,322,908	2,445,793	2,444,934
Long Term Liabilities	2,380,614	2,451,804	11,828,628	12,671,580	14,209,242	15,123,384
Total Liabilities	<u>3,658,494</u>	<u>3,573,830</u>	<u>12,996,541</u>	<u>13,994,488</u>	<u>16,655,035</u>	<u>17,568,318</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	14,557,252	14,742,413	20,278,012	20,151,122	34,835,264	34,893,535
Restricted	1,675,432	1,350,715	4,077,966	2,988,075	5,753,398	4,338,790
Unrestricted	2,351,350	2,626,191	2,103,801	2,234,231	4,455,151	4,860,422
Total Net Assets	<u>\$ 18,584,034</u>	<u>\$ 18,719,319</u>	<u>\$ 26,459,779</u>	<u>\$ 25,373,428</u>	<u>\$ 45,043,813</u>	<u>\$ 44,092,747</u>

The net assets of the Town (including prior period adjustments), increased by \$951,066. The net assets of the governmental activities decreased by (\$135,285) or about 1% and the net assets of the business-type activities increased by \$1,086,351 or about 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 535,669	\$ 575,892	\$ 3,369,495	\$ 3,162,091	\$ 3,905,164	\$ 3,737,983
Operating Grants and Contributions	2,366,883	1,632,449	74,654	80,286	2,441,537	1,712,735
Capital Grants and Contributions	-	-	1,362,533	105,074	1,362,533	105,074
General Revenues:						
Property Taxes	15,561,768	15,161,274	-	-	15,561,768	15,161,274
Motor Vehicle and Other Excises	1,264,933	1,221,913	-	-	1,264,933	1,221,913
Intergovernmental Not Restricted to a Specific Program	39,309	-	-	-	39,309	-
Other	141,170	179,604	17,714	-	158,884	179,604
Total Revenues	<u>19,909,732</u>	<u>18,771,132</u>	<u>4,824,396</u>	<u>3,347,451</u>	<u>24,734,128</u>	<u>22,118,583</u>
Expenses						
General Government	1,087,016	1,192,015	-	-	1,087,016	1,192,015
Public Safety	2,664,085	2,856,505	-	-	2,664,085	2,856,505
Education	11,519,425	11,390,738	-	-	11,519,425	11,390,738
Highways and Public Works	1,881,912	1,839,774	-	-	1,881,912	1,839,774
Human Services	429,720	329,486	-	-	429,720	329,486
Culture and Recreation	678,387	665,021	-	-	678,387	665,021
Employee Benefits	1,732,652	1,600,984	-	-	1,732,652	1,600,984
Debt Service	112,008	76,198	-	-	112,008	76,198
Sewer	-	-	1,977,276	2,016,567	1,977,276	2,016,567
Water	-	-	1,365,651	1,353,378	1,365,651	1,353,378
Transfer Station	-	-	334,930	362,410	334,930	362,410
Total Expenses	<u>20,105,205</u>	<u>19,950,721</u>	<u>3,677,857</u>	<u>3,732,355</u>	<u>23,783,062</u>	<u>23,683,076</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers	(195,473)	(1,179,589)	1,146,539	(384,904)	951,066	(1,564,493)
Special Items and Transfers	60,188	(20,090)	(60,188)	20,090	-	-
Increase (Decrease) in Net Assets	<u>\$ (135,285)</u>	<u>\$ (1,199,679)</u>	<u>\$ 1,086,351</u>	<u>\$ (364,814)</u>	<u>\$ 951,066</u>	<u>\$ (1,564,493)</u>

Governmental Activities

In fiscal year 2012, property taxes accounted for approximately 78% 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 \$183,503 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 six fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>For Special Purpose</u>	<u>Reserved for 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 for the period ended June 30, 2011 and \$639,047 for the period ended June 30, 2012.

<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
2012	-	-	407,986	2,280,186	2,688,172

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 \$26,459,779.

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, 2012, amounts to \$48,640,673 (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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 7,278,881	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,640,825	\$ 8,640,825
Construction in Progress	-	-	3,231,077	2,985,535	3,231,077	2,985,535
Buildings	4,351,908	4,559,813	1,261,327	1,322,560	5,613,235	5,882,373
Improvements Other Than Buildings	148,824	165,047	69,603	79,478	218,427	244,525
Infrastructure	2,788,750	3,047,540	26,362,253	27,246,845	29,151,003	30,294,385
Equipment	279,156	296,409	138,023	165,180	417,179	461,589
Vehicles	1,272,866	1,296,661	96,061	103,638	1,368,927	1,400,299
Total	<u>\$ 16,120,385</u>	<u>\$ 16,644,351</u>	<u>\$ 32,520,288</u>	<u>\$ 33,265,180</u>	<u>\$ 48,640,673</u>	<u>\$ 49,909,531</u>

Debt

The Town had \$13,566,977 in bonds outstanding on June 30, 2012. This represents a \$1,180,081 decrease.

Governmental Activities	<u>2012</u>	<u>2011</u>
General Obligation Bonds Payable	\$ 1,324,700	\$ 1,633,000
Business-type Activities		
Sewer	8,980,277	9,632,958
Water	<u>3,262,000</u>	<u>3,481,100</u>
Enterprise Bonds Payable	<u>12,242,277</u>	<u>13,114,058</u>
Total Debt	<u>\$ 13,566,977</u>	<u>\$ 14,747,058</u>

Fiscal Year 2013 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 2013 budget.

Town of Pepperell, Massachusetts
Statement of Net Assets
June 30, 2012
(Continued on Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 4,419,030	\$ 3,771,482	\$ 8,190,512
Petty Cash	375	-	375
Receivables:			
Property Taxes	525,229	-	525,229
Tax Liens	351,417	-	351,417
Excises	135,425	-	135,425
User Charges	389,267	776,751	1,166,018
Deferred Property Taxes	42,602	-	42,602
Intergovernmental	258,798	-	258,798
Liens	-	66,371	66,371
Special Assessment	-	87,844	87,844
Other	-	25	25
Noncurrent:			
Deferred Special Assessments	-	2,233,559	2,233,559
Capital Assets:			
Assets Not Being Depreciated	7,278,881	4,593,021	11,871,902
Assets Being Depreciated, Net	8,841,504	27,927,267	36,768,771
Total Assets	<u>22,242,528</u>	<u>39,456,320</u>	<u>61,698,848</u>
Liabilities			
Current:			
Warrants Payable	269,187	112,941	382,128
Accrued Salaries Payable	91,919	12,099	104,018
Employees' Withholding Payable	51,663	-	51,663
Intergovernmental	9,320	2,598	11,918
Unclaimed Checks	21,765	-	21,765
Bond Anticipation Notes Payable	447,000	-	447,000
Guarantee Deposits	153,859	-	153,859
Accrued Interest	5,667	175,799	181,466
Bonds Payable	227,500	864,476	1,091,976
Noncurrent:			
Bonds Payable	1,097,200	11,377,801	12,475,001
Unamortized Premium on Bonds	-	236,886	236,886
Compensated Absences	361,573	-	361,573
Other Post Employment Benefit Obligations	921,841	213,941	1,135,782
Total Liabilities	<u>3,658,494</u>	<u>12,996,541</u>	<u>16,655,035</u>

Town of Pepperell, Massachusetts
Statement of Net Assets
June 30, 2012
(Continued from Page 9)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,557,252	20,278,012	34,835,264
Restricted for:			
Debt Service	-	4,077,966	4,077,966
Special Revenue	1,208,672	-	1,208,672
Perpetual Funds:			
Expendable	185,768	-	185,768
Nonexpendable	280,992	-	280,992
Unrestricted	2,351,350	2,103,801	4,455,151
Total Net Assets	\$ 18,584,034	\$ 26,459,779	\$ 45,043,813

Town of Pepperell, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2012

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	\$ 1,087,016	\$ 140,826	\$ 7,842	\$ -	\$ (938,348)	\$ -	\$ (938,348)
Public Safety	2,664,085	368,977	46,976	-	(2,248,132)	-	(2,248,132)
Education	11,519,425	-	1,261,776	-	(10,257,649)	-	(10,257,649)
Highways and Public Works	1,881,912	14,813	869,143	-	(997,956)	-	(997,956)
Human Services	429,720	8,532	74,336	-	(346,852)	-	(346,852)
Culture and Recreation	678,387	2,521	106,810	-	(569,056)	-	(569,056)
Employee Benefits	1,732,652	-	-	-	(1,732,652)	-	(1,732,652)
Debt Service	112,008	-	-	-	(112,008)	-	(112,008)
Total Governmental Activities	20,105,205	535,669	2,366,883	-	(17,202,653)	-	(17,202,653)
<i>Business-Type Activities:</i>							
Sewer	1,977,276	1,777,670	70,319	1,362,533	-	1,233,246	1,233,246
Water	1,365,651	1,253,743	4,335	-	-	(107,573)	(107,573)
Transfer Station	334,930	338,082	-	-	-	3,152	3,152
Total Business-Type Activities	3,677,857	3,369,495	74,654	1,362,533	-	1,128,825	1,128,825
Total	\$ 23,783,062	\$ 3,905,164	\$ 2,441,537	\$ 1,362,533	(17,202,653)	1,128,825	(16,073,828)
<i>General Revenues:</i>							
Property Taxes					15,561,768	-	15,561,768
Motor Vehicle and Other Excise Taxes					1,264,933	-	1,264,933
Penalties and Interest on taxes					82,684	-	82,684
Intergovernmental					39,309	-	39,309
Interest and Investment Income					54,357	-	54,357
Other Revenue					1,516	17,714	19,230
Contributions to Permanent Funds					2,613	-	2,613
Transfers In (Out)					60,188	(60,188)	-
Total General Revenues, Special Items and Transfers					17,067,368	(42,474)	17,024,894
Change in Net Assets					(135,285)	1,086,351	951,066
<i>Net Assets:</i>							
Beginning of the Year					18,719,319	25,373,428	44,092,747
End of the Year					<u>\$ 18,584,034</u>	<u>\$ 26,459,779</u>	<u>\$ 45,043,813</u>

Town of Pepperell, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 2,878,631	\$ 1,540,399	\$ 4,419,030
Petty Cash	375	-	375
Receivables:			
Property Taxes	525,229	-	525,229
Tax Liens	351,417	-	351,417
Excises	135,425	-	135,425
User Charges	-	389,267	389,267
Deferred Property Taxes	42,602	-	42,602
Intergovernmental	-	258,798	258,798
Tax Foreclosures	30,911	-	30,911
Total Assets	\$ 3,964,590	\$ 2,188,464	\$ 6,153,054
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 205,163	\$ 64,024	\$ 269,187
Accrued Salaries Payable	87,957	3,962	91,919
Employees' Withholding Payable	51,663	-	51,663
Guarantee Deposits	-	153,859	153,859
Intergovernmental	-	9,320	9,320
Unclaimed Checks	-	21,765	21,765
Bonds Anticipation Notes Payable	-	447,000	447,000
Deferred Revenue:			
Property Taxes	484,368	-	484,368
Tax Liens	351,417	-	351,417
Excises	64,939	-	64,939
Tax Foreclosures	30,911	-	30,911
User Charges	-	389,267	389,267
Intergovernmental	-	257,623	257,623
Total Liabilities	1,276,418	1,346,820	2,623,238
Fund Equity:			
Fund Balances:			
Nonspendable	-	280,992	280,992
Restricted	-	700,310	700,310
Committed	-	166,775	166,775
Assigned	407,986	-	407,986
Unassigned	2,280,186	(306,433)	1,973,753
Total Fund Balances	2,688,172	841,644	3,529,816
Total Liabilities and Fund Balances	\$ 3,964,590	\$ 2,188,464	\$ 6,153,054

Town of Pepperell, Massachusetts
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Fiscal Year Ended June 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 15,374,236	\$ -	\$ 15,374,236
Tax Liens	81,727	-	81,727
Excises	1,269,958	-	1,269,958
Penalties and Interest	82,684	-	82,684
Licenses and Permits	163,000	-	163,000
Fees and Other Departmental	107,653	342,249	449,902
Intergovernmental	1,355,319	685,415	2,040,734
Fines and Forfeits	9,078	-	9,078
Earnings on Investments	55,026	7,092	62,118
In Lieu of Taxes	22,490	-	22,490
Contributions	-	20,297	20,297
Miscellaneous	-	15,938	15,938
Total Revenues	<u>18,521,171</u>	<u>1,070,991</u>	<u>19,592,162</u>
<u>Expenditures:</u>			
General Government	985,962	47,328	1,033,290
Public Safety	2,339,510	280,939	2,620,449
Education	11,424,878	-	11,424,878
Intergovernmental	27,548	-	27,548
Highways and Public Works	1,085,376	576,747	1,662,123
Human Services	361,789	32,559	394,348
Culture and Recreation	522,062	107,040	629,102
Employee Benefits	1,536,883	-	1,536,883
Debt Service	424,084	-	424,084
Debt Issuance Costs	15,700	-	15,700
Total Expenditures	<u>18,723,792</u>	<u>1,044,613</u>	<u>19,768,405</u>
Excess of Revenues Over (Under) Expenditures	<u>(202,621)</u>	<u>26,378</u>	<u>(176,243)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	390,188	19,764	409,952
Operating Transfers (Out)	(19,764)	(330,000)	(349,764)
Proceeds from Refunding Bonds	653,700	-	653,700
Payments to Refunding Agent	(638,000)	-	(638,000)
Total Other Financing Sources (Uses)	<u>386,124</u>	<u>(310,236)</u>	<u>75,888</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>183,503</u>	<u>(283,858)</u>	<u>(100,355)</u>
Fund Balance, Beginning	<u>2,504,669</u>	<u>1,125,502</u>	<u>3,630,171</u>
Fund Balance, Ending	<u>\$ 2,688,172</u>	<u>\$ 841,644</u>	<u>\$ 3,529,816</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, 2012

Total governmental fund balances	\$	3,529,816
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		16,120,385
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,547,614
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(1,324,700)
Accrued Interest on Bonds		(5,667)
Other Post Employment Benefit Obligations		(921,841)
Compensated Absences		(361,573)
		(3,613,781)
Net assets of governmental activities	\$	18,584,034

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, 2012

Net change in fund balances - total governmental funds	\$ (100,355)
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.	(523,966)
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.	317,570
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.	308,300
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.	3,776
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>(140,610)</u>
Change in net assets of governmental activities	<u><u>\$ (135,285)</u></u>

Town of Pepperell, Massachusetts
Proprietary Funds
Statement of Net Assets
June 30, 2012

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Assets				
Current:				
Cash and Cash Investments	\$ 2,458,083	\$ 1,195,315	\$ 118,084	\$ 3,771,482
Receivables, Net of Allowance for Uncollectibles:				
User Charges	418,661	358,090	-	776,751
Liens	45,396	20,975	-	66,371
Special Assessments	87,844	-	-	87,844
Other	25	-	-	25
Noncurrent:				
Deferred Special Assessments	2,233,559	-	-	2,233,559
Assets Not Being Depreciated	1,799,725	2,437,393	355,903	4,593,021
Assets Being Depreciated, Net	18,318,274	9,232,613	376,380	27,927,267
Total Assets	<u>25,361,567</u>	<u>13,244,386</u>	<u>850,367</u>	<u>39,456,320</u>
Liabilities				
Current:				
Warrants Payable	20,426	74,571	17,944	112,941
Accrued Wages Payable	6,432	4,092	1,575	12,099
Intergovernmental	-	2,598	-	2,598
Accrued Interest Payable	137,629	38,170	-	175,799
Bonds Payable	650,476	214,000	-	864,476
Unamortized Premium on Bonds	236,886	-	-	236,886
Noncurrent:				
Bonds Payable	8,329,801	3,048,000	-	11,377,801
Other Post Employment Benefit Obligations	130,556	50,868	32,517	213,941
Total Liabilities	<u>9,512,206</u>	<u>3,432,299</u>	<u>52,036</u>	<u>12,996,541</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	11,137,722	8,408,007	732,283	20,278,012
Restricted for:				
Debt Service	4,077,966	-	-	4,077,966
Unrestricted	633,673	1,404,080	66,048	2,103,801
Total Net Assets	<u>\$ 15,849,361</u>	<u>\$ 9,812,087</u>	<u>\$ 798,331</u>	<u>\$ 26,459,779</u>

Town of Pepperell, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2012

	<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	\$ 1,777,670	\$ 1,253,743	\$ 338,082	\$ 3,369,495
Special Assessments	136,933	-	-	136,933
Other Revenues	-	11,171	-	11,171
	<u>1,914,603</u>	<u>1,264,914</u>	<u>338,082</u>	<u>3,517,599</u>
Total Operating Revenues				
Operating Expenditures:				
Personal Services	519,105	385,945	120,997	1,026,047
Nonpersonal Service	472,555	523,329	177,789	1,173,673
Depreciation	641,497	333,194	36,144	1,010,835
	<u>1,633,157</u>	<u>1,242,468</u>	<u>334,930</u>	<u>3,210,555</u>
Total Operating Expenditures				
Operating Income (Loss)	<u>281,446</u>	<u>22,446</u>	<u>3,152</u>	<u>307,044</u>
Nonoperating Revenues (Expenses):				
Capital Grants and Contributions	1,225,600	-	-	1,225,600
Intergovernmental	23,895	-	-	23,895
Earnings on Investments	46,424	4,335	-	50,759
Miscellaneous Revenues	-	6,543	-	6,543
Debt Issuance Costs	(4,300)	-	-	(4,300)
Interest on Debt	(339,819)	(123,183)	-	(463,002)
	<u>951,800</u>	<u>(112,305)</u>	<u>-</u>	<u>839,495</u>
Total Nonoperating Revenues (Expenses)				
Income (Loss) Before Contributions and Transfers	<u>1,233,246</u>	<u>(89,859)</u>	<u>3,152</u>	<u>1,146,539</u>
Operating Transfers Out	<u>(30,872)</u>	<u>(29,316)</u>	<u>-</u>	<u>(60,188)</u>
Total Contributions and Transfers	<u>(30,872)</u>	<u>(29,316)</u>	<u>-</u>	<u>(60,188)</u>
Change in Net Assets	<u>1,202,374</u>	<u>(119,175)</u>	<u>3,152</u>	<u>1,086,351</u>
Total Net Assets July 1, 2011	<u>14,646,987</u>	<u>9,931,262</u>	<u>795,179</u>	<u>25,373,428</u>
Total Net Assets June 30, 2012	<u>\$ 15,849,361</u>	<u>\$ 9,812,087</u>	<u>\$ 798,331</u>	<u>\$ 26,459,779</u>

Town of Pepperell, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2012

	<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	\$ 2,407,851	\$ 1,255,602	\$ 338,082	\$ 4,001,535
Payments to Employees	(512,673)	(381,853)	(119,422)	(1,013,948)
Payments to Vendors	(473,711)	(613,839)	(183,375)	(1,270,925)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,421,467</u>	<u>259,910</u>	<u>35,285</u>	<u>1,716,662</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfer from Other Funds	(30,872)	(29,316)	-	(60,188)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(30,872)</u>	<u>(29,316)</u>	<u>-</u>	<u>(60,188)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(80,774)	(185,170)	-	(265,944)
Proceeds from Sales of Capital Assets	-	6,543	-	6,543
Principal Payments on Notes and Bonds	(652,681)	(219,100)	-	(871,781)
Interest Expense	(313,084)	(125,248)	-	(438,332)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(1,046,539)</u>	<u>(522,975)</u>	<u>-</u>	<u>(1,569,514)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	338	4,335	-	4,673
Net Cash Flows Provided (Used) by Investing Activities	<u>338</u>	<u>4,335</u>	<u>-</u>	<u>4,673</u>
Net Increase (Decrease) in Cash and Cash Equivalents	344,394	(288,046)	35,285	91,633
Cash and Cash Equivalents, July 1, 2011	<u>2,113,689</u>	<u>1,483,361</u>	<u>82,799</u>	<u>3,679,849</u>
Cash and Cash Equivalents, June 30, 2012	<u>\$ 2,458,083</u>	<u>\$ 1,195,315</u>	<u>\$ 118,084</u>	<u>\$ 3,771,482</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 281,446	\$ 22,446	\$ 3,152	\$ 307,044
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	641,497	333,194	36,144	1,010,835
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	493,248	(9,312)	-	483,936
Warrants and Accounts Payable	5,276	(86,418)	(4,011)	(85,153)
Net Cash Provided by Operating Activities	<u>\$ 1,421,467</u>	<u>\$ 259,910</u>	<u>\$ 35,285</u>	<u>\$ 1,716,662</u>

Town of Pepperell, Massachusetts
Notes to the Financial Statements
June 30, 2012

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2012. 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, 2012 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 2012. The budget amounts include special Town meeting votes applicable to fiscal year 2012 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	\$ 18,470,483
Adjustments:	
Sixty Day Property Tax Accrual - Net	39,454
GASB 54 - Stabilization Interest Earnings	11,234
As Reported GAAP Statement	<u>\$ 18,521,171</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 18,694,290
Adjustments:	
July 1, 2011 Encumbrances	94,828
June 30, 2012 Encumbrances	(98,986)
GASB 54 - Stabilization Paid Down BAN	33,660
As Reported GAAP Statement	<u>\$ 18,723,792</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>	Non Major <u>Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
General Government	\$ -	\$ 152	\$ 152
Education	-	45,659	45,659
Public Works	-	157,287	157,287
Culture and Recreation	-	77,894	77,894
Total Nonspendable	<u>-</u>	<u>280,992</u>	<u>280,992</u>
 Restricted for:			
General Government	-	58,714	58,714
Public Safety	-	105,857	105,857
Education	-	31,370	31,370
Public Works	-	88,587	88,587
Human Services	-	35,405	35,405
Culture and Recreation	-	380,377	380,377
Total Restricted	<u>-</u>	<u>700,310</u>	<u>700,310</u>

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Committed to:			
General Government	-	99,679	99,679
Public Works	-	46,009	46,009
Human Services	-	1,231	1,231
Culture and Recreation	-	19,856	19,856
Total Committed	<u>-</u>	<u>166,775</u>	<u>166,775</u>
Assigned to:			
General Government	67,043	-	67,043
Public Safety	142,803	-	142,803
Public Works	29,140	-	29,140
Human Services	34,000	-	34,000
Employee Benefits	135,000	-	135,000
Total Assigned	<u>407,986</u>	<u>-</u>	<u>407,986</u>
Unassigned	<u>2,280,186</u>	<u>(306,433)</u>	<u>1,973,753</u>
Total Fund Balances	<u>\$ 2,688,172</u>	<u>\$ 841,644</u>	<u>\$ 3,529,816</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 \$639,047. 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, 2012 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	35,626	-	1,088,037
Vehicles	3,160,290	156,404	-	3,316,694
Total Capital Assets Being Depreciated	<u>25,224,800</u>	<u>192,030</u>	<u>-</u>	<u>25,416,830</u>
Less Accumulated Depreciation for:				
Buildings	(4,518,321)	(207,905)	-	(4,726,226)
Improvements Other Than Buildings	(303,006)	(16,223)	-	(319,229)
Infrastructure	(8,418,372)	(258,790)	-	(8,677,162)
Equipment	(756,002)	(52,879)	-	(808,881)
Vehicles	(1,863,629)	(180,199)	-	(2,043,828)
Total Accumulated Depreciation	<u>(15,859,330)</u>	<u>(715,996)</u>	<u>-</u>	<u>(16,575,326)</u>
Capital Assets Being Depreciated, Net	<u>9,365,470</u>	<u>(523,966)</u>	<u>-</u>	<u>8,841,504</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,644,351</u>	<u>\$ (523,966)</u>	<u>\$ -</u>	<u>\$ 16,120,385</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 25,743
Public Safety	184,078
Education	94,547
Highways and Public Works	330,627
Human Services	33,933
Culture and Recreation	47,068
Total Governmental Activities Depreciation Expense	<u>\$ 715,996</u>

(F) Capital Assets (Continued):

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	2,985,535	245,542	-	3,231,077
Total Capital Assets Not Being Depreciated	<u>4,347,479</u>	<u>245,542</u>	<u>-</u>	<u>4,593,021</u>
Assets Being Depreciated:				
Buildings	2,449,362	-	-	2,449,362
Improvements Other Than Buildings	285,114	-	-	285,114
Infrastructure	42,719,396	-	-	42,719,396
Equipment	448,167	-	-	448,167
Vehicles	717,244	20,401	-	737,645
Total Capital Assets Being Depreciated	<u>46,619,283</u>	<u>20,401</u>	<u>-</u>	<u>46,639,684</u>
Less Accumulated Depreciation for:				
Buildings	(1,126,802)	(61,233)	-	(1,188,035)
Improvements Other Than Buildings	(205,636)	(9,875)	-	(215,511)
Infrastructure	(15,472,551)	(884,592)	-	(16,357,143)
Equipment	(282,987)	(27,157)	-	(310,144)
Vehicles	(613,606)	(27,978)	-	(641,584)
Total Accumulated Depreciation	<u>(17,701,582)</u>	<u>(1,010,835)</u>	<u>-</u>	<u>(18,712,417)</u>
Capital Assets Being Depreciated, Net	<u>28,917,701</u>	<u>(990,434)</u>	<u>-</u>	<u>27,927,267</u>
Business-Type Activities Capital Assets, Net	<u>\$ 33,265,180</u>	<u>\$ (744,892)</u>	<u>\$ -</u>	<u>\$ 32,520,288</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 641,497
Water	333,194
Transfer Station	36,144
Total Business-type Activities Depreciation Expense	<u>\$ 1,010,835</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, 2012, \$273,247 of the Town's bank balance of \$6,991,426 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$273,247

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, 2012, 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>
MMDT & Mutual Funds	\$ 634,666	\$ 634,666	\$ -	\$ -
U. S. Government Obligations	492,627	101,829	390,798	-
Corporation Notes and Bonds	112,606	112,606	-	-
Assets Backed Securities	1,741	1,741	-	-
Total	<u>\$ 1,241,640</u>	<u>\$ 850,842</u>	<u>\$ 390,798</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, 2012, 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 (40%) 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	\$ 390,188	\$ (19,764)	\$ 370,424
Non-major Governmental	19,764	(330,000)	(310,236)
Enterprise - Business Type	-	(60,188)	(60,188)
Total	<u>\$ 409,952</u>	<u>\$ (409,952)</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, 2012, 2011 and 2010 were \$778,181, \$687,784 and \$658,167, 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, 2012. 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, 2012, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$505,598
Interest on Net OPEB Obligation	36,122
Adjustment to Annual Required Contribution	(50,215)
Annual OPEB Cost (Expense)	<u>491,505</u>
Contributions Made	<u>(258,772)</u>
Increase in Net OPEB Obligation	<u>232,733</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>903,049</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$1,135,782</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
6/30/2012	\$491,505	52.6%	\$1,135,782

- 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	
2012	\$ 318,675
2011	154,184
2010	37,725
2009	2,699
Total Real Estate Taxes	<u>\$ 513,283</u>

(A) Accounts Receivable (Continued)

Personal Property Taxes		
2012	\$ 3,782	
2011	3,052	
2010	2,797	
2009	917	
2008	897	
2007 and prior	501	
Total Personal Property Taxes	<u>11,946</u>	
Total Property Taxes Receivable		<u>\$ 525,229</u>
Tax Liens		<u>\$ 363,257</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2012	\$ 91,241	
2011	19,677	
2010	8,258	
2009	7,533	
2008	7,167	
2007 and prior	1,549	
Tax Excise Receivable	<u>135,425</u>	
Charges for Services:		
Ambulance		<u>\$ 389,267</u>
Deferred Property Taxes		<u>\$ 42,602</u>
Intergovernmental:		
Commonwealth - Highway Funds	\$ 257,623	
Commonwealth - Other	1,175	
Total Intergovernmental	<u>258,798</u>	

(A) Accounts Receivable (Continued)

Business Type Activities:

User Charges:

Sewer	\$418,661
Water	358,090

Total User Charges \$776,751

Liens:

Sewer Liens	\$ 45,396
Water Liens	20,975
Total Liens	<u><u>\$ 66,371</u></u>

Special Assessments:

Current:

Betterments	<u><u>\$ 87,844</u></u>
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Other:

Sewer Permits Receivable	<u><u>\$ 25</u></u>
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Noncurrent:

Deferred Sewer Betterments Not Yet Due	<u><u>\$ 2,233,559</u></u>
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(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2012 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	\$350,000	\$315,000	\$350,000	\$315,000	3/1/2013	0.50%
Ambulance	0	132,000	0	132,000	6/20/2013	0.65%
Total	<u><u>\$350,000</u></u>	<u><u>\$447,000</u></u>	<u><u>\$350,000</u></u>	<u><u>\$447,000</u></u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2012, 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, 2012:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/2011	\$1,633,000	\$13,114,058	\$14,747,058
Add: New Issues	0	0	0
Proceeds Refunding Bonds	653,700	301,300	955,000
Payoff of refunded Debt	(638,000)	(297,000)	(935,000)
Less: Maturities	<u>(324,000)</u>	<u>(876,081)</u>	<u>(1,200,081)</u>
Balance 6/30/2012	<u>\$1,324,700</u>	<u>\$12,242,277</u>	<u>\$13,566,977</u>

(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>
2013	\$227,500	\$41,213	\$864,476	\$468,646
2014	127,500	34,314	842,562	437,957
2015	126,900	30,819	847,239	409,190
2016	122,400	27,156	833,000	378,835
2017	122,400	23,551	843,000	347,705
2018-2022	514,000	68,610	3,951,000	1,256,744
2023-2027	84,000	5,261	2,936,000	494,427
2028-2032	<u>0</u>	<u>0</u>	<u>1,125,000</u>	<u>84,406</u>
	<u>\$1,324,700</u>	<u>\$230,924</u>	<u>\$12,242,277</u>	<u>\$3,877,910</u>

(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:

	<u>Refunding Bonds Principal and Interest</u>	<u>Refunded Bonds Principal and Interest</u>	<u>Net 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>

(B) Liabilities (Continued)

On April 11, 2012, the Town issued \$955,000 of Refunding Bonds to refund \$935,000 of General Obligation Bonds. The net savings from this refunding issue was \$94,818. 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>
2013	\$129,420	\$138,758	\$9,338
2014	125,212	134,720	9,508
2015	123,113	130,564	7,451
2016	116,012	126,288	10,276
2017	114,012	121,918	7,906
2018	107,013	117,454	10,441
2019	104,875	112,941	8,066
2020	97,500	108,382	10,882
2021	89,800	98,750	8,950
2022	<u>77,250</u>	<u>89,250</u>	<u>12,000</u>
	<u>\$1,084,207</u>	<u>\$1,179,025</u>	<u>\$94,818</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>
2013	67,309
2014	64,547
2015	61,675
2016	58,676
2017	55,541
2018-2022	226,596
2023-2027	<u>84,391</u>
Total Subsidies	<u>\$618,735</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, 2012, 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
June 27, 2010	Fire Truck	350,000
November 7, 2011	Ambulance	<u>165,000</u>
	Total	<u>\$2,589,000</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2013 operating and capital budget of \$24,505,346. Fiscal 2013 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	\$ 19,555,492
Enterprise Fund Revenues and Available Funds	4,030,698
Other Available Funds	919,156
Total	<u>\$ 24,505,346</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.

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 15,349,521	\$ 15,386,923	\$ 15,348,216	\$ (38,707)
Tax Liens	-	-	81,727	81,727
Excises	1,210,000	1,210,000	1,256,526	46,526
Penalties and Interest	82,000	82,000	82,684	684
Licenses and Permits	140,000	140,000	163,000	23,000
Fees and Other Departmental	110,800	110,800	107,653	(3,147)
Intergovernmental	1,238,592	1,329,592	1,355,318	25,726
Fines and Forfeits	22,500	22,500	9,078	(13,422)
Earnings on Investments	65,000	65,000	43,791	(21,209)
In Lieu of Taxes	24,000	24,000	22,490	(1,510)
Miscellaneous	10,000	10,000	-	(10,000)
Total Revenues	<u>18,252,413</u>	<u>18,380,815</u>	<u>18,470,483</u>	<u>89,668</u>
<u>Expenditures</u>				
Current:				
General Government	1,076,206	1,051,568	992,388	59,180
Public Safety	2,333,609	2,415,597	2,353,639	61,958
Education	11,424,878	11,424,878	11,424,878	-
Highway and Public Works	1,064,576	1,102,876	1,075,258	27,618
Health and Human Services	279,574	367,115	361,289	5,826
Culture and Recreation	524,713	534,138	516,283	17,855
Intergovernmental	27,548	27,548	27,548	-
Employee Benefits	1,653,000	1,647,500	1,536,883	110,617
Debt Service	390,424	390,424	390,424	-
Bond Issue Costs	-	-	15,700	(15,700)
Total Expenditures	<u>18,774,528</u>	<u>18,961,644</u>	<u>18,694,290</u>	<u>267,354</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(522,115)</u>	<u>(580,829)</u>	<u>(223,807)</u>	<u>357,022</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	330,000	330,000	390,188	60,188
Transfers Out	(6,847)	(9,133)	(19,764)	(10,631)
Other Available Funds	67,500	112,214	112,214	-
Free Cash	131,462	147,748	147,748	-
Total Other Financing Sources (Uses)	<u>522,115</u>	<u>580,829</u>	<u>630,386</u>	<u>49,557</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,579</u>	<u>\$ 406,579</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

System Wide				Town of Pepperell	
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, 2012

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

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a) / (b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
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, 2012

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, 2012

(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, 2010
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Level dollar for the 2002, and 2003 Early Retirement Incentives (ERI) and increasing amortization for the remaining unfunded liability.
Remaining Amortization Period	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.
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	8.125% (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

Plan Membership:

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, 2012. 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, 2012, and have issued our report thereon dated March 20, 2013. 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 April 30, 2013.

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
March 20, 2013