

TOWN OF PEPPERELL, MASSACHUSETTS

Financial Statements

June 30, 2013

(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, 2013
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pepperell, Massachusetts as of and for the year ended June 30, 2013, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pepperell, Massachusetts as of June 30, 2013 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 27, 2014, on our consideration of the Town of Pepperell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Pepperell's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
June 27, 2014

**Town of Pepperell, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2013**

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, 2013.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2013 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 \$44,271,443 (net position). Of this amount, \$3,936,164 is considered unrestricted (unrestricted net position). The unrestricted net position of the Town's governmental activities are \$1,676,544 and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net position of business-type activities are \$2,259,620 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 2013 was \$20,141,666 from governmental activities, and \$3,932,768 from Business-type activities.

The total cost of all Town services for fiscal year 2013 was \$24,846,804, of which \$20,884,593 was for governmental services, and \$3,962,211 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,843,457 or 9 percent of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt decreased by (\$1,091,976) 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 position* presents information on all of the Town of Pepperell, Massachusetts' assets and liabilities, with the differences between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Pepperell, Massachusetts is improving or deteriorating.

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

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

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for 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 position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

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

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

Financial Analysis of the Government-wide Financial Statements

Net Position

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

The following table reflects the condensed net position for the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 5,903,935	\$ 6,122,143	\$ 6,846,423	\$ 6,936,032	\$ 12,750,358	\$ 13,058,175
Capital Assets	15,700,679	16,120,385	31,547,547	32,520,288	47,248,226	48,640,673
Total Assets	<u>21,604,614</u>	<u>22,242,528</u>	<u>38,393,970</u>	<u>39,456,320</u>	<u>59,998,584</u>	<u>61,698,848</u>

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Other Liabilities	1,241,706	1,277,880	1,042,599	1,167,913	2,284,305	2,445,793
Long Term Liabilities	2,461,011	2,380,614	10,981,825	11,828,628	13,442,836	14,209,242
Total Liabilities	3,702,717	3,658,494	12,024,424	12,996,541	15,727,141	16,655,035
Net Position:						
Invested in Capital Assets						
Net of Related Debt	14,277,479	14,557,252	20,169,745	20,278,012	34,447,224	34,835,264
Restricted	1,947,874	1,675,432	3,940,181	4,077,966	5,888,055	5,753,398
Unrestricted	1,676,544	2,351,350	2,259,620	2,103,801	3,936,164	4,455,151
Total Net Position	\$ 17,901,897	\$ 18,584,034	\$ 26,369,546	\$ 26,459,779	\$ 44,271,443	\$ 45,043,813

The net position of the Town (including prior period adjustments), decreased by \$772,370. The net position of the governmental activities decreased by \$682,137 or about 4% and the net position of the business-type activities decreased by \$90,233 or less than 1%.

Changes in Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 591,531	\$ 535,669	\$ 3,709,725	\$ 3,369,495	\$ 4,301,256	\$ 3,905,164
Operating Grants and Contributions	1,975,922	2,366,883	83,327	74,654	2,059,249	2,441,537
Capital Grants and Contributions	-	-	116,533	1,362,533	116,533	1,362,533
General Revenues:						
Property Taxes	16,157,915	15,561,768	-	-	16,157,915	15,561,768
Motor Vehicle and Other Excises	1,230,659	1,264,933	-	-	1,230,659	1,264,933
Intergovernmental Not Restricted to a Specific Program	68,745	39,309	-	-	68,745	39,309
Other	116,894	141,170	23,183	17,714	140,077	158,884
Total Revenues	20,141,666	19,909,732	3,932,768	4,824,396	24,074,434	24,734,128
Expenses						
General Government	1,078,436	1,087,016	-	-	1,078,436	1,087,016
Public Safety	2,960,953	2,664,085	-	-	2,960,953	2,664,085
Education	12,319,983	11,519,425	-	-	12,319,983	11,519,425
Highways and Public Works	1,630,234	1,881,912	-	-	1,630,234	1,881,912
Human Services	471,089	429,720	-	-	471,089	429,720
Culture and Recreation	674,811	678,387	-	-	674,811	678,387
Debt Service	41,376	112,008	-	-	41,376	112,008
Employee Benefits	1,707,711	1,732,652	-	-	1,707,711	1,732,652
Sewer	-	-	2,078,444	1,977,276	2,078,444	1,977,276
Water	-	-	1,564,497	1,365,651	1,564,497	1,365,651
Transfer Station	-	-	319,270	334,930	319,270	334,930
Total Expenses	20,884,593	20,105,205	3,962,211	3,677,857	24,846,804	23,783,062

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Increase (Decrease) in Net Position						
Before Special Items and Transfers	(742,927)	(195,473)	(29,443)	1,146,539	(772,370)	951,066
Special Items and Transfers	35,995	60,188	(60,790)	(60,188)	(24,795)	-
Increase (Decrease) in Net Position	<u>\$ (706,932)</u>	<u>\$ (135,285)</u>	<u>\$ (90,233)</u>	<u>\$ 1,086,351</u>	<u>\$ (797,165)</u>	<u>\$ 951,066</u>

Governmental Activities

In fiscal year 2013, property taxes accounted for approximately 80% 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 \$270,013 less 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 seven 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 of \$605,692 has been reported as a component of the general fund, unassigned fund balance for the period ended June 30, 2013.

<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
2013	-	156,709	417,993	1,843,457	2,418,159

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 position of the Proprietary Funds at the end of the year amounted to \$26,369,546.

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, 2013, amounts to \$47,248,226 (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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 7,278,881	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,640,825	\$ 8,640,825
Construction in Progress	-	-	3,265,144	3,231,077	3,265,144	3,231,077
Buildings	4,145,055	4,351,908	1,200,093	1,261,327	5,345,148	5,613,235
Improvements Other Than Buildings	132,601	148,824	59,727	69,603	192,328	218,427
Infrastructure	2,602,720	2,788,750	25,477,787	26,362,253	28,080,507	29,151,003
Equipment	234,863	279,156	110,866	138,023	345,729	417,179
Vehicles	1,306,559	1,272,866	71,986	96,061	1,378,545	1,368,927
Total	<u>\$ 15,700,679</u>	<u>\$ 16,120,385</u>	<u>\$ 31,547,547</u>	<u>\$ 32,520,288</u>	<u>\$ 47,248,226</u>	<u>\$ 48,640,673</u>

Debt

The Town had \$12,475,001 in bonds outstanding on June 30, 2013. This represents a \$1,091,976 decrease.

Governmental Activities	<u>2013</u>	<u>2012</u>
General Obligation Bonds Payable	<u>\$ 1,097,200</u>	<u>\$ 1,324,700</u>
Business-type Activities		
Sewer	8,329,801	8,980,277
Water	<u>3,048,000</u>	<u>3,262,000</u>
Enterprise Bonds Payable	<u>11,377,801</u>	<u>12,242,277</u>
Total Debt	<u>\$ 12,475,001</u>	<u>\$ 13,566,977</u>

Fiscal Year 2014 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 2014 budget.

Town of Pepperell, Massachusetts
Statement of Net Position
June 30, 2013
(Continued on Page 11)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 4,011,513	\$ 3,909,537	\$ 7,921,050
Petty Cash	375	-	375
Receivables:			
Property Taxes	574,731	-	574,731
Tax Liens	351,681	-	351,681
Excises	126,204	-	126,204
User Charges	431,260	980,808	1,412,068
Deferred Property Taxes	18,011	-	18,011
Intergovernmental	390,160	-	390,160
Liens	-	48,051	48,051
Special Assessment	-	40,787	40,787
Noncurrent:			
Deferred Special Assessments	-	1,867,240	1,867,240
Capital Assets:			
Assets Not Being Depreciated	7,278,881	4,627,088	11,905,969
Assets Being Depreciated, Net	8,421,798	26,920,459	35,342,257
Total Assets	<u>21,604,614</u>	<u>38,393,970</u>	<u>59,998,584</u>
Liabilities			
Current:			
Warrants Payable	432,048	-	432,048
Accrued Salaries Payable	104,339	12,607	116,946
Employees' Withholding Payable	47,732	-	47,732
Unamortized Premium on Bonds	-	19,741	19,741
Intergovernmental	10,293	2,791	13,084
Unclaimed Checks	16,968	-	16,968
Bond Anticipation Notes Payable	379,000	-	379,000
Guarantee Deposits	120,829	-	120,829
Accrued Interest	2,997	164,898	167,895
Bonds Payable	127,500	842,562	970,062
Noncurrent:			
Bonds Payable	969,700	10,535,239	11,504,939
Unamortized Premium on Bonds	-	197,405	197,405
Compensated Absences	386,653	-	386,653
Other Post Employment Benefit Obligations	1,104,658	249,181	1,353,839
Total Liabilities	<u>3,702,717</u>	<u>12,024,424</u>	<u>15,727,141</u>

Town of Pepperell, Massachusetts
Statement of Net Position
June 30, 2013
(Continued from Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	14,277,479	20,169,745	34,447,224
Restricted for:			
Capital Projects	101,000	-	101,000
Debt Service	-	3,940,181	3,940,181
Special Revenue	1,385,879	-	1,385,879
Perpetual Funds:			
Expendable	181,555	-	181,555
Nonexpendable	279,440	-	279,440
Unrestricted	1,676,544	2,259,620	3,936,164
Total Net Position	<u>\$ 17,901,897</u>	<u>\$ 26,369,546</u>	<u>\$ 44,271,443</u>

Town of Pepperell, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 1,078,436	\$ 127,735	\$ 1,148	\$ -	\$ (949,553)	\$ -	\$ (949,553)
Public Safety	2,960,953	447,368	81,561	-	(2,432,024)	-	(2,432,024)
Education	12,319,983	-	1,262,621	-	(11,057,362)	-	(11,057,362)
Highways and Public Works	1,630,234	6,787	426,643	-	(1,196,804)	-	(1,196,804)
Human Services	471,089	7,649	95,919	-	(367,521)	-	(367,521)
Culture and Recreation	674,811	1,992	108,030	-	(564,789)	-	(564,789)
Debt Service	41,376	-	-	-	(41,376)	-	(41,376)
Employee Benefits	1,707,711	-	-	-	(1,707,711)	-	(1,707,711)
Total Governmental Activities	<u>20,884,593</u>	<u>591,531</u>	<u>1,975,922</u>	<u>-</u>	<u>(18,317,140)</u>	<u>-</u>	<u>(18,317,140)</u>
<i>Business-Type Activities:</i>							
Sewer	2,078,444	2,032,342	74,545	116,533	-	144,976	144,976
Water	1,564,497	1,375,596	8,782	-	-	(180,119)	(180,119)
Transfer Station	319,270	301,787	-	-	-	(17,483)	(17,483)
Total Business-Type Activities	<u>3,962,211</u>	<u>3,709,725</u>	<u>83,327</u>	<u>116,533</u>	<u>-</u>	<u>(52,626)</u>	<u>(52,626)</u>
Total	<u>\$ 24,846,804</u>	<u>\$ 4,301,256</u>	<u>\$ 2,059,249</u>	<u>\$ 116,533</u>	<u>(18,317,140)</u>	<u>(52,626)</u>	<u>(18,369,766)</u>
<i>General Revenues:</i>							
Property Taxes					16,157,915	-	16,157,915
Motor Vehicle and Other Excise Taxes					1,230,659	-	1,230,659
Penalties and Interest on taxes					106,815	-	106,815
Intergovernmental					68,745	-	68,745
Interest and Investment Income					32,999	-	32,999
Other Revenue					-	23,183	23,183
Contributions to Permanent Funds					1,875	-	1,875
Special Items:							
Gain (Loss) on Sale of Assets					(24,795)	-	(24,795)
Transfers In (Out)					60,790	(60,790)	-
Total General Revenues, Special Items and Transfers					<u>17,635,003</u>	<u>(37,607)</u>	<u>17,597,396</u>
Change in Net Position					(682,137)	(90,233)	(772,370)
<i>Net Position:</i>							
Beginning of the Year					<u>18,584,034</u>	<u>26,459,779</u>	<u>45,043,813</u>
End of the Year					<u>\$ 17,901,897</u>	<u>\$ 26,369,546</u>	<u>\$ 44,271,443</u>

Town of Pepperell, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2013

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 2,833,529	\$ 1,177,984	\$ 4,011,513
Petty Cash	375	-	375
Receivables:			
Property Taxes	574,731	-	574,731
Tax Liens	351,681	-	351,681
Excises	126,204	-	126,204
User Charges	-	431,260	431,260
Deferred Property Taxes	18,011	-	18,011
Intergovernmental	-	390,160	390,160
Tax Foreclosures	75,074	-	75,074
Total Assets	\$ 3,979,605	\$ 1,999,404	\$ 5,979,009
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 432,048	\$ -	\$ 432,048
Accrued Salaries Payable	96,438	7,901	104,339
Employees' Withholding Payable	47,732	-	47,732
Guarantee Deposits	-	120,829	120,829
Intergovernmental	-	10,293	10,293
Unclaimed Checks	-	16,968	16,968
Bonds Anticipation Notes Payable	-	379,000	379,000
Unearned Revenue:			
Property Taxes	531,426	-	531,426
Tax Liens	351,681	-	351,681
Excises	27,047	-	27,047
Tax Foreclosures	75,074	-	75,074
User Charges	-	431,260	431,260
Intergovernmental	-	390,160	390,160
Total Liabilities	1,561,446	1,356,411	2,917,857
Fund Equity:			
Fund Balances:			
Nonspendable	-	279,440	279,440
Restricted	-	654,314	654,314
Committed	156,709	66,381	223,090
Assigned	417,993	45,480	463,473
Unassigned	1,843,457	(402,622)	1,440,835
Total Fund Balances	2,418,159	642,993	3,061,152
Total Liabilities and Fund Balances	\$ 3,979,605	\$ 1,999,404	\$ 5,979,009

Town of Pepperell, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 16,002,511	\$ -	\$ 16,002,511
Tax Liens	84,709	-	84,709
Excises	1,268,551	-	1,268,551
Penalties and Interest	106,815	-	106,815
Licenses and Permits	182,464	-	182,464
Fees and Other Departmental	79,795	339,452	419,247
Intergovernmental	1,397,228	366,104	1,763,332
Fines and Forfeits	14,221	-	14,221
Earnings on Investments	34,094	3,516	37,610
In Lieu of Taxes	23,373	-	23,373
Contributions	-	28,710	28,710
Miscellaneous	-	50,958	50,958
Total Revenues	19,193,761	788,740	19,982,501
<u>Expenditures:</u>			
General Government	1,021,630	13,703	1,035,333
Public Safety	2,465,888	511,304	2,977,192
Education	12,223,436	2,000	12,225,436
Highways and Public Works	1,055,932	326,315	1,382,247
Human Services	398,453	38,864	437,317
Culture and Recreation	539,060	90,495	629,555
Debt Service	271,546	-	271,546
Intergovernmental	28,435	-	28,435
Employee Benefits	1,524,894	-	1,524,894
Total Expenditures	19,529,274	982,681	20,511,955
Excess of Revenues Over (Under) Expenditures	(335,513)	(193,941)	(529,454)
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	202,350	136,850	339,200
Operating Transfers (Out)	(136,850)	(141,560)	(278,410)
Total Other Financing Sources (Uses)	65,500	(4,710)	60,790
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(270,013)	(198,651)	(468,664)
Fund Balance, Beginning	2,688,172	841,644	3,529,816
Fund Balance, Ending	\$ 2,418,159	\$ 642,993	\$ 3,061,152

Town of Pepperell, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 Fiscal Year Ended June 30, 2013

Total governmental fund balances	\$ 3,061,152
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,700,679
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,731,574
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds Payable	(1,097,200)
Accrued Interest on Bonds	(2,997)
Other Post Employment Benefit Obligations	(1,104,658)
Compensated Absences	<u>(386,653)</u>
Net position of governmental activities	<u><u>\$ 17,901,897</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, 2013

Net change in fund balances - total governmental funds	\$ (468,664)
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.	(394,911)
In the statement of activities, the gain on the trade in of capital assets is reported, whereas in the governmental funds, the gain is not reported.	(24,795)
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 unearned revenue.	183,960
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of 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.	227,500
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.	2,670
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>(207,897)</u>
Change in net position of governmental activities	<u><u>\$ (682,137)</u></u>

Town of Pepperell, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2013

	<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	\$ 2,828,119	\$ 961,486	\$ 119,932	\$ 3,909,537
Receivables, Net of Allowance for Uncollectibles:				
User Charges	560,935	419,873	-	980,808
Liens	37,092	10,959	-	48,051
Special Assessments	40,787	-	-	40,787
Noncurrent:				
Deferred Special Assessments	1,867,240	-	-	1,867,240
Assets Not Being Depreciated	1,812,517	2,458,668	355,903	4,627,088
Assets Being Depreciated, Net	17,676,777	8,903,445	340,237	26,920,459
Total Assets	<u>24,823,467</u>	<u>12,754,431</u>	<u>816,072</u>	<u>38,393,970</u>
Liabilities				
Current:				
Accrued Wages Payable	7,275	4,060	1,272	12,607
Intergovernmental	-	2,791	-	2,791
Accrued Interest Payable	128,681	36,217	-	164,898
Bonds Payable	630,562	212,000	-	842,562
Unamortized Premium on Bonds	19,741	-	-	19,741
Noncurrent:				
Bonds Payable	7,699,239	2,836,000	-	10,535,239
Other Post Employment Benefit Obligations	168,202	47,027	33,952	249,181
Unamortized Premium on Bonds	197,405	-	-	197,405
Total Liabilities	<u>8,851,105</u>	<u>3,138,095</u>	<u>35,224</u>	<u>12,024,424</u>
Net Position				
Invested in Capital Assets, Net of Related Debt	11,159,493	8,314,113	696,139	20,169,745
Restricted for:				
Debt Service	3,940,181	-	-	3,940,181
Unrestricted	872,688	1,302,223	84,709	2,259,620
Total Net Position	<u>\$ 15,972,362</u>	<u>\$ 9,616,336</u>	<u>\$ 780,848</u>	<u>\$ 26,369,546</u>

Town of Pepperell, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2013

	<u>Business-Type Activities</u>			
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	<u>Total</u>
Operating Revenues:				
Charges for Services	\$ 2,032,342	\$ 1,375,596	\$ 301,787	\$ 3,709,725
Special Assessments	116,533	-	-	116,533
Other Revenues	9,206	7,632	-	16,838
	<u>2,158,081</u>	<u>1,383,228</u>	<u>301,787</u>	<u>3,843,096</u>
Total Operating Revenues				
Operating Expenditures:				
Personal Services	509,499	388,849	123,322	1,021,670
Nonpersonal Service	606,130	730,393	159,804	1,496,327
Depreciation	641,497	329,168	36,144	1,006,809
	<u>1,757,126</u>	<u>1,448,410</u>	<u>319,270</u>	<u>3,524,806</u>
Total Operating Expenditures				
Operating Income (Loss)	<u>400,955</u>	<u>(65,182)</u>	<u>(17,483)</u>	<u>318,290</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	31,090	8,335	-	39,425
Earnings on Investments	43,455	447	-	43,902
Miscellaneous Revenues	-	6,345	-	6,345
Interest on Debt	(321,318)	(116,087)	-	(437,405)
	<u>(246,773)</u>	<u>(100,960)</u>	<u>-</u>	<u>(347,733)</u>
Total Nonoperating Revenues (Expenses)				
Income (Loss) Before Contributions and Transfers	<u>154,182</u>	<u>(166,142)</u>	<u>(17,483)</u>	<u>(29,443)</u>
Operating Transfers Out	<u>(31,181)</u>	<u>(29,609)</u>	<u>-</u>	<u>(60,790)</u>
Total Contributions and Transfers	<u>(31,181)</u>	<u>(29,609)</u>	<u>-</u>	<u>(60,790)</u>
Change in Net Position	<u>123,001</u>	<u>(195,751)</u>	<u>(17,483)</u>	<u>(90,233)</u>
Total Net Position July 1, 2012	<u>15,849,361</u>	<u>9,812,087</u>	<u>798,331</u>	<u>26,459,779</u>
Total Net Position June 30, 2013	<u>\$ 15,972,362</u>	<u>\$ 9,616,336</u>	<u>\$ 780,848</u>	<u>\$ 26,369,546</u>

Town of Pepperell, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2013

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 2,437,512	\$ 1,331,461	\$ 301,787	\$ 4,070,760
Payments to Employees	(508,656)	(388,881)	(123,625)	(1,021,162)
Payments to Vendors	(588,910)	(811,403)	(176,314)	(1,576,627)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,339,946</u>	<u>131,177</u>	<u>1,848</u>	<u>1,472,971</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	7,195	11,126	-	18,321
Transfer from Other Funds	(31,181)	(29,609)	-	(60,790)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(23,986)</u>	<u>(18,483)</u>	<u>-</u>	<u>(42,469)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(12,792)	(21,275)	-	(34,067)
Proceeds from Sales of Capital Assets	-	6,345	-	6,345
Principal Payments on Notes and Bonds	(650,476)	(214,000)	-	(864,476)
Interest Expense	(282,698)	(118,040)	-	(400,738)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(945,966)</u>	<u>(346,970)</u>	<u>-</u>	<u>(1,292,936)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	42	447	-	489
Net Cash Flows Provided (Used) by Investing Activities	<u>42</u>	<u>447</u>	<u>-</u>	<u>489</u>
Net Increase (Decrease) in Cash and Cash Equivalents	370,036	(233,829)	1,848	138,055
Cash and Cash Equivalents, July 1, 2012	<u>2,458,083</u>	<u>1,195,315</u>	<u>118,084</u>	<u>3,771,482</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 2,828,119</u>	<u>\$ 961,486</u>	<u>\$ 119,932</u>	<u>\$ 3,909,537</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 400,955	\$ (65,182)	\$ (17,483)	\$ 318,290
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	641,497	329,168	36,144	1,006,809
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	279,431	(51,767)	-	227,664
Warrants and Accounts Payable	18,063	(81,042)	(16,813)	(79,792)
Net Cash Provided by Operating Activities	<u>\$ 1,339,946</u>	<u>\$ 131,177</u>	<u>\$ 1,848</u>	<u>\$ 1,472,971</u>

Town of Pepperell, Massachusetts
Notes to the Financial Statements
June 30, 2013

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2013. 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, 2013 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 position** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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 2013. The budget amounts include special Town meeting votes applicable to fiscal year 2013 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	\$ 19,187,593
Adjustments:	
Sixty Day Property Tax Accrual - Net	6,524
GASB 54 - Stabilization Interest Earnings	(356)
As Reported GAAP Statement	<u>\$ 19,193,761</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 19,611,081
Adjustments:	
July 1, 2012 Encumbrances	98,986
June 30, 2013 Encumbrances	(180,793)
As Reported GAAP Statement	<u>\$ 19,529,274</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	\$ -	\$ 150	\$ 150
Education	-	45,101	45,101
Public Works	-	157,247	157,247
Culture and Recreation	-	76,942	76,942
Total Nonspendable	<u>-</u>	<u>279,440</u>	<u>279,440</u>
Restricted for:			
General Government	-	50,139	50,139
Public Safety	-	91,761	91,761
Education	-	30,144	30,144
Public Works	-	52,507	52,507
Human Services	-	29,049	29,049
Culture and Recreation	-	400,714	400,714
Total Restricted	<u>-</u>	<u>654,314</u>	<u>654,314</u>

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Committed to:			
General Government	66,564	4,633	71,197
Public Safety	21,777	-	21,777
Public Works	68,368	42,984	111,352
Human Services	-	805	805
Culture and Recreation	-	17,959	17,959
Total Committed	<u>156,709</u>	<u>66,381</u>	<u>223,090</u>
Assigned to:			
General Government	41,238	-	41,238
Public Safety	64,829	45,480	110,309
Education	213,534	-	213,534
Public Works	13,142	-	13,142
Human Services	5,000	-	5,000
Culture and Recreation	30,250	-	30,250
Employee Benefits	50,000	-	50,000
Total Assigned	<u>417,993</u>	<u>45,480</u>	<u>463,473</u>
Unassigned	<u>1,843,457</u>	<u>(402,622)</u>	<u>1,440,835</u>
Total Fund Balances	<u>\$ 2,418,159</u>	<u>\$ 642,993</u>	<u>\$ 3,061,152</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 \$605,692. 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, 2013 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	1,088,037	-	-	1,088,037
Vehicles	3,316,694	244,034	(170,165)	3,390,563
Total Capital Assets Being Depreciated	<u>25,416,830</u>	<u>244,034</u>	<u>(170,165)</u>	<u>25,490,699</u>
Less Accumulated Depreciation for:				
Buildings	(4,726,226)	(206,853)	-	(4,933,079)
Improvements Other Than Buildings	(319,229)	(16,223)	-	(335,452)
Infrastructure	(8,677,162)	(186,030)	-	(8,863,192)
Equipment	(808,881)	(44,293)	-	(853,174)
Vehicles	(2,043,828)	(185,546)	145,370	(2,084,004)
Total Accumulated Depreciation	<u>(16,575,326)</u>	<u>(638,945)</u>	<u>145,370</u>	<u>(17,068,901)</u>
Capital Assets Being Depreciated, Net	<u>8,841,504</u>	<u>(394,911)</u>	<u>(24,795)</u>	<u>8,421,798</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,120,385</u>	<u>\$ (394,911)</u>	<u>\$ (24,795)</u>	<u>\$ 15,700,679</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 12,541
Public Safety	192,522
Education	94,547
Highways and Public Works	258,333
Human Services	33,934
Culture and Recreation	47,068
Total Governmental Activities Depreciation Expense	<u>\$ 638,945</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	3,231,077	34,067	-	3,265,144
Total Capital Assets Not Being Depreciated	<u>4,593,021</u>	<u>34,067</u>	<u>-</u>	<u>4,627,088</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	737,645	-	-	737,645
Total Capital Assets Being Depreciated	<u>46,639,684</u>	<u>-</u>	<u>-</u>	<u>46,639,684</u>
Less Accumulated Depreciation for:				
Buildings	(1,188,035)	(61,234)	-	(1,249,269)
Improvements Other Than Buildings	(215,511)	(9,876)	-	(225,387)
Infrastructure	(16,357,143)	(884,466)	-	(17,241,609)
Equipment	(310,144)	(27,157)	-	(337,301)
Vehicles	(641,584)	(24,075)	-	(665,659)
Total Accumulated Depreciation	<u>(18,712,417)</u>	<u>(1,006,808)</u>	<u>-</u>	<u>(19,719,225)</u>
Capital Assets Being Depreciated, Net	<u>27,927,267</u>	<u>(1,006,808)</u>	<u>-</u>	<u>26,920,459</u>
Business-Type Activities Capital Assets, Net	<u>\$ 32,520,288</u>	<u>\$ (972,741)</u>	<u>\$ -</u>	<u>\$ 31,547,547</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 641,497
Water	329,168
Transfer Station	36,143
Total Business-type Activities Depreciation Expense	<u>\$ 1,006,808</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, 2013, \$165,631 of the Town's bank balance of \$6,770,519 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$165,631

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, 2013, 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	\$ 1,122,152	\$ 1,122,152	\$ -	\$ -
U. S. Government Obligations	48,693	372	48,321	-
Corporation Notes and Bonds	170,684	170,684	-	-
Total	<u>\$ 1,341,529</u>	<u>\$ 1,293,208</u>	<u>\$ 48,321</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, 2013, 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 (4%) 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	\$ 202,350	\$ (136,850)	\$ 65,500
Non-major Governmental	136,850	(141,560)	(4,710)
Enterprise - Business Type	-	(60,790)	(60,790)
Total	<u>\$ 339,200</u>	<u>\$ (339,200)</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, 2013, 2012 and 2011 were \$815,038, \$778,181 and \$687,784, 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, 2013. 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, 2013, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$512,351
Interest on Net OPEB Obligation	45,431
Adjustment to Annual Required Contribution	(63,156)
Annual OPEB Cost (Expense)	<u>494,626</u>
Contributions Made	<u>(276,569)</u>
Increase in Net OPEB Obligation	<u>218,057</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>1,135,782</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$1,353,839</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
6/30/2013	\$494,626	55.9%	\$1,353,839

- 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

2013	\$ 256,009
2012	213,477
2011	92,329
2010	<u>(265)</u>
Total Real Estate Taxes	<u>\$ 561,550</u>

(A) Accounts Receivable (Continued)

Personal Property Taxes		
2013	\$ 1,848	
2012	3,169	
2011	3,052	
2010	2,797	
2009	917	
2008	897	
2007 and prior	501	
Total Personal Property Taxes	<u>13,181</u>	
Total Property Taxes Receivable		<u>\$ 574,731</u>
Tax Liens		<u>\$ 351,681</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2013	\$ 79,191	
2012	21,611	
2011	8,093	
2010	6,397	
2009	6,365	
2008 and prior	4,547	
Tax Excise Receivable	<u>126,204</u>	<u>\$ 126,204</u>
Charges for Services:		
Ambulance		<u>\$ 431,260</u>
Deferred Property Taxes		<u>\$ 18,011</u>
Intergovernmental:		
Commonwealth - Highway Funds	<u>\$ 390,160</u>	
Total Intergovernmental		<u>\$ 390,160</u>
<u>Business Type Activities:</u>		
User Charges:		
Sewer	\$560,935	
Water	419,873	
Total User Charges		<u>\$980,808</u>

(A) Accounts Receivable (Continued)

Liens:

Sewer Liens	\$ 37,092	
Water Liens	10,959	
Total Liens	<u>48,051</u>	\$ <u>48,051</u>

Special Assessments:

Current:

Betterments	<u>40,787</u>	\$ <u>40,787</u>
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Noncurrent:

Deferred Sewer Betterments Not Yet Due	<u>1,867,240</u>	\$ <u>1,867,240</u>
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(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2013 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	\$315,000	\$280,000	\$315,000	\$280,000	2/28/2014	0.50%
Ambulance	132,000	99,000	132,000	99,000	6/20/2014	0.60%
Total	<u>\$447,000</u>	<u>\$379,000</u>	<u>\$447,000</u>	<u>\$379,000</u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2013, 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, 2013:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/2012	\$1,324,700	\$12,242,277	\$13,566,977
Add: New Issues	0	0	0
Less: Maturities	<u>(227,500)</u>	<u>(864,476)</u>	<u>(1,091,976)</u>
Balance 6/30/2013	<u>\$1,097,200</u>	<u>\$11,377,801</u>	<u>\$12,475,001</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>
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	105,000	20,271	850,000	315,599
2019-2023	451,000	51,836	3,844,000	1,098,136
2024-2028	42,000	1,764	2,568,000	375,592
2029-2033	<u>0</u>	<u>0</u>	<u>750,000</u>	<u>46,250</u>
	<u>\$1,097,200</u>	<u>\$189,711</u>	<u>\$11,377,801</u>	<u>\$3,409,265</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>
2014	\$64,547
2015	61,675
2016	58,676
2017	55,541
2018	52,276
2019-2023	208,503
2024-2028	<u>50,209</u>
Total Subsidies	<u>\$551,427</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, 2013, 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 2014 operating and capital budget of \$25,177,050. Fiscal 2014 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	\$ 20,271,080
Enterprise Fund Revenues and Available Funds	3,882,810
Other Available Funds	679,251
General Fund	343,909
Total	<u>\$ 25,177,050</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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 15,817,318	\$ 16,202,796	\$ 16,024,659	\$ (178,137)
Tax Liens	-	-	84,709	84,709
Excises	1,240,000	1,240,000	1,239,880	(120)
Penalties and Interest	82,500	82,500	106,815	24,315
Licenses and Permits	163,000	163,000	182,464	19,464
Fees and Other Departmental	87,050	87,050	79,795	(7,255)
Intergovernmental	1,399,691	1,399,691	1,397,228	(2,463)
Fines and Forfeits	9,000	9,000	14,221	5,221
Earnings on Investments	36,000	36,000	34,449	(1,551)
In Lieu of Taxes	22,500	22,500	23,373	873
Miscellaneous	15,000	15,000	-	(15,000)
Total Revenues	<u>18,872,059</u>	<u>19,257,537</u>	<u>19,187,593</u>	<u>(69,944)</u>
<u>Expenditures</u>				
Current:				
General Government	1,110,999	1,115,319	1,068,390	46,929
Public Safety	2,426,217	2,517,217	2,453,566	63,651
Education	11,848,278	12,223,436	12,223,436	-
Highway and Public Works	986,030	1,127,090	1,103,301	23,789
Health and Human Services	324,848	407,848	398,453	9,395
Culture and Recreation	551,852	551,852	539,060	12,792
Debt Service	279,658	279,658	271,546	8,112
Intergovernmental	28,435	28,435	28,435	-
Employee Benefits	1,614,192	1,614,192	1,524,894	89,298
Total Expenditures	<u>19,170,509</u>	<u>19,865,047</u>	<u>19,611,081</u>	<u>253,966</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(298,450)</u>	<u>(607,510)</u>	<u>(423,488)</u>	<u>184,022</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	154,300	201,860	202,350	490
Transfers Out	(35,850)	(103,850)	(103,850)	-
Other Available Funds	60,000	132,500	132,500	-
Free Cash	188,000	377,000	377,000	-
Total Other Financing Sources (Uses)	<u>366,450</u>	<u>607,510</u>	<u>608,000</u>	<u>490</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ 68,000</u>	<u>\$ -</u>	<u>\$ 184,512</u>	<u>\$ 184,512</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%
1/1/2012	862,323,395	1,974,144,909	1,111,821,514	43.68%	393,100,995	282.83%

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%
2010	76,146,963	76,146,963	100.00%	658,167	0.86%
2011	78,662,214	78,662,214	100.00%	687,784	0.87%

Town of Pepperell, Massachusetts
 Required Supplementary Information - GASB 45
 Schedule of Funding Progress
 Fiscal Year Ended June 30, 2013

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>
7/1/2007	\$0	\$4,212,794	\$4,212,794	0%	\$5,176,000	81%
7/1/2010	\$0	\$7,393,195	\$7,393,195	0%	\$3,907,274	189.2%

Town of Pepperell, Massachusetts
 Required Supplementary Information - GASB 45
 Valuation Details
 Fiscal Year Ended June 30, 2013

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, 2013

(A) Budgetary Information

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

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

(B) Pension Plans

1. Plan Description

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

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

2. Funding Plan

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

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

3. Actuarial Assumptions

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2014 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI liability amortized in level payments.
Remaining Amortization Period	As of July 1, 2012, 7 years remaining for the 2002 ERI liability; 8 years remaining for the 2003 ERI liability; 10 years remaining for the 2010 ERI liability and 23 years for remaining unfunded liability.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period as described by Revenue Procedure 2000-40.
Actuarial Assumptions:	
Investment Rate of Return	8.00% (previously, 8.125%)
Projected Salary Increases	4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$14,000 of retirement income (previously, 3.00% of the first \$12,000 of retirement income)
Plan Membership:	
Retired Participants and Beneficiaries Receiving Benefits	4,886
Inactive Participants Entitled to a Return of their Employee Contributions	2,708
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	394
Active Participants	<u>8,979</u>
Total	<u>16,967</u>

(C) Other Postemployment Benefits (OPEB) Disclosures – 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, 2013. 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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pepperell, Massachusetts as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated June 27, 2014.

Internal Control Over Financial Reporting

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

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

We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (2013-1). A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2013-1 to be a material weakness. We did issue a management letter dated June 27, 2014 that addresses issues (not significant deficiencies or material weaknesses) that we believe should be communicated to you.

Compliance and Other Matters

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

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
June 27, 2014

Town of Pepperell, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2013
(Continued on Page 50)

Findings – Financial Statement Audit

2013-1

Cash Reconciliation

During our review of the cash reconciliation procedures performed by the Town Accountant, for the fiscal year ended June 30, 2013 (and for the period from July 31, 2013 through February 28, 2014), we found that the reconciliation of the Town Accountants general ledger cash balances, as compared to the Treasurer’s Cash Book balances, was not performed at all for July 31, 2013 through February 28, 2014, by the Town Accountant. During our review, however, we did find that the Treasurer had properly reconciled from the Treasurer’s cash book balances to the actual bank statement balances for fiscal year 2014.

As part of our review of the cash balances and cash reconciliation procedures followed by the Town, for the period ending June 30, 2013, we reviewed the July and August 2013 cash reconciliation procedures followed by the Town. During this review, we found that the necessary steps were not performed by the Town Accountant and we also found that there were cash reconciliation problems that would require a significant amount of work to review and correct. The biggest problem relates to how the newly implemented Payroll Module was being posted by the Town Accountant to the general ledger. During our review we found that the payroll transactions were not being posted to the general ledger cash account (and other related accounts), on the correct dates. Instead of being posted on the same date that the bank processed the payroll activity, these transactions were being posted two or three months later. This oversight causes serious cash reconciliation problems and makes the entire process of reconciling cash between the Town Accountant’s general ledger balances to the Treasurer’s balances much more difficult and inefficient. We recommend that the Town Accountant be sure that the payroll transactions be posted to the General Ledger on the same day as when the bank records this activity. We also want to note that it is extremely important that the Town Accountant perform a timely reconciliation of the General Ledger cash account balances to the Treasurer’s cash balances every month.

During our review of the cash reconciliation work, we also noticed some old checks reflected on the outstanding check lists. This comment relating to the old outstanding checks is not considered a significant deficiency, but instead is information we are providing to the Town to help make the cash reconciliation process more efficient.

We recommend that the old outstanding checks on the lists be reviewed. It is possible that some of the outstanding checks were replaced by new checks, but not voided in the accounting system. Other outstanding checks may fall under the State’s abandoned property law (Massachusetts General Laws Chapter 200A Section 9A).

Town of Pepperell, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2013
(Continued on Page 51)

The Treasurer should determine whether the outstanding checks related to active vendors represent an amount still due to the vendor or if they have been replaced by other checks. If the vendor still has a valid claim, the outstanding check should be voided and replaced. If not, the procedures outlined in Massachusetts General Laws Chapter 200A Section 9A should be followed. Recent amendments to the law have changed the period of time that a check must be outstanding (one year provided the face of the check bears the statement “void if not cashed within 1 year from date of issue”) before the abandoned property process may begin. The amended law also changed the required method for notifying the payees that checks remain unclaimed.

A summary of the procedures is noted below.

1. All Town checks should include the verbiage “void if not cashed within 1 year from date of issue” on their face.
2. After a check has been outstanding for one year the abandoned property process should begin.
3. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year (date of check, check number, payee and amount).The bank should be notified to stop payment on the checks and the checks should be removed from the Town’s outstanding check list. The Treasurer’s cash book should be increased by the total of the list. In addition, the Treasurer should provide the Town Accountant with a copy of the list.
4. The Town Accountant should make a journal entry in the general ledger to increase the cash and the unclaimed checks liability accounts.
5. The Treasurer should begin the “notification” process in accordance with M.G.L. Chapter 200A, Section 9A which states:

The treasurer of the city, town or district may post such notice **using either of the following methods:** (1) by mailing the notice by first class mail, postage prepaid, to the last known address of the beneficiary or person entitled thereto; **or** (2) if the city, town or district maintains an official website, by posting the notice conspicuously on the website for not less than 60 days. If the apparent owner fails to respond within 60 days after the mailing or posting of the notice, the treasurer shall cause a notice of the check to be published in a newspaper of general circulation, printed in English, in the county in which the city or town is located.

Town of Pepperell, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2013
(Continued from Page 50)

In the event that funds appearing to be owed to a corporation, organization, beneficiary or person is \$100 or more and the deadline as provided in the notice has passed and no claim for the funds has been made, the treasurer shall cause an additional notice to be published in a newspaper of general circulation in the county in which the city, town or district is located; provided, however, that the notice shall provide an extended deadline beyond which funds shall not be claimed and such deadline shall be at least 1 year from the date of publication of the notice.

6. After the notice/publication/waiting period requirements have been met, any checks that remain unclaimed may be closed to the general fund's unreserved fund balance account.