

TOWN OF PEPPERELL, MASSACHUSETTS

Financial Statements

June 30, 2014

(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, 2014
 Table of Contents

	<u>Page #</u>
Independent Auditors' Report	1,2
Management's Discussion and Analysis (Required Supplementary Information)	3-10
Basic Financial Statements	
Government-wide Financial Statements	
• Statement of Net Position	11,12
• Statement of Activities	13
Fund Financial Statements	
• Balance Sheet - Governmental Funds	14
• Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Position	16
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
• Statement of Net Position – Proprietary Funds	18
• Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds	19
• Statement of Cash Flows – Proprietary Funds	20
Notes to the Financial Statements	21-43
Required Supplementary Information	
• Statement of Revenues and Expenditures – Budget and Actual - General Fund (Budgetary Basis)	45
• Middlesex Retirement System – Schedule of Funding Progress	46
• Middlesex Retirement System – Schedule of Employer’s Contributions	47
• GASB 45 – Schedule of Funding Progress	48
• GASB 45 – Valuation Details	49
• Notes to the Required Supplementary Information	50-52

Town of Pepperell, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2014
Table of Contents

Page #

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 <i>Government Auditing Standards</i>	53,54
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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, 2014 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2014 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 4, 2015, 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 4, 2015

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

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, 2014.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2014 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 \$43,621,812 (net position). Of this amount, \$5,158,348 is considered unrestricted (unrestricted net position). The unrestricted net position of the Town's governmental activities is \$2,357,197 and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net position of business-type activities is \$2,801,151 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 2014 was \$21,547,554 from governmental activities, and \$3,897,258 from Business-type activities.

The total cost of all Town services for fiscal year 2014 was \$26,094,443, of which \$22,261,777 was for governmental services, and \$3,832,666 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,253,448 or 11% of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt (net unamortized premiums) decreased by (\$990,203) or 7.8% during the year.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Pepperell, Massachusetts' basic financial statements. The Town of Pepperell, Massachusetts' basic financial statements consist of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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/deferred outflows and liabilities/deferred inflows, 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.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Pepperell, Massachusetts' progress in funding its obligation to provide pension and Other Post Employment Benefits (OPEB) to its employees. The *required supplementary information* also includes budget versus actual information.

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, typically, 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 5,881,551	\$ 5,903,935	\$ 7,189,487	\$ 6,846,423	\$ 13,071,038	\$ 12,750,358
Capital Assets	15,245,214	15,700,679	30,558,328	31,547,547	45,803,542	47,248,226
Total Assets	<u>21,126,765</u>	<u>21,604,614</u>	<u>37,747,815</u>	<u>38,393,970</u>	<u>58,874,580</u>	<u>59,998,584</u>
Other Liabilities	1,192,160	1,241,706	1,145,970	1,042,599	2,338,130	2,284,305
Long Term Liabilities	2,676,798	2,461,011	10,237,840	10,981,825	12,914,638	13,442,836
Total Liabilities	<u>3,868,958</u>	<u>3,702,717</u>	<u>11,383,810</u>	<u>12,024,424</u>	<u>15,252,768</u>	<u>15,727,141</u>
Net Position:						
Net Investment in Capital Assets	14,004,314	14,277,479	19,825,684	20,169,745	33,829,998	34,447,224
Restricted	896,296	1,947,874	3,737,170	3,940,181	4,633,466	5,888,055
Unrestricted	2,357,197	1,676,544	2,801,151	2,259,620	5,158,348	3,936,164
Total Net Position	<u>\$ 17,257,807</u>	<u>\$ 17,901,897</u>	<u>\$ 26,364,005</u>	<u>\$ 26,369,546</u>	<u>\$ 43,621,812</u>	<u>\$ 44,271,443</u>

The net position of the Town decreased by \$649,631. The net position of the governmental activities decreased by \$644,090 or about 4% and the net position of the business-type activities decreased by \$5,541 or about 0.02%.

Changes in Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 574,984	\$ 591,531	\$ 3,750,069	\$ 3,709,725	\$ 4,325,053	\$ 4,301,256
Operating Grants and Contributions	818,887	1,975,922	64,576	83,327	883,463	2,059,249
Capital Grants and Contributions	-	-	64,591	116,533	64,591	116,533
General Revenues:						
Property Taxes	17,134,667	16,157,915	-	-	17,134,667	16,157,915
Motor Vehicle and Other Excises	1,492,998	1,230,659	-	-	1,492,998	1,230,659
Intergovernmental Not Restricted to a Specific Program	1,330,918	68,745	-	-	1,330,918	68,745
Other	195,100	116,894	18,022	23,183	213,122	140,077
Total Revenues	<u>21,547,554</u>	<u>20,141,666</u>	<u>3,897,258</u>	<u>3,932,768</u>	<u>25,444,812</u>	<u>24,074,434</u>

Changes in Net Position (Continued)

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Expenses						
General Government	1,107,666	1,078,436	-	-	1,107,666	1,078,436
Public Safety	3,142,497	2,960,953	-	-	3,142,497	2,960,953
Education	12,895,367	12,319,983	-	-	12,895,367	12,319,983
Highways and Public Works	1,951,152	1,630,234	-	-	1,951,152	1,630,234
Human Services	486,526	471,089	-	-	486,526	471,089
Culture and Recreation	664,648	674,811	-	-	664,648	674,811
Debt Service	35,511	41,376	-	-	35,511	41,376
Employee Benefits	1,978,410	1,707,711	-	-	1,978,410	1,707,711
Sewer	-	-	2,009,477	2,078,444	2,009,477	2,078,444
Water	-	-	1,481,469	1,564,497	1,481,469	1,564,497
Transfer Station	-	-	341,720	319,270	341,720	319,270
Total Expenses	<u>22,261,777</u>	<u>20,884,593</u>	<u>3,832,666</u>	<u>3,962,211</u>	<u>26,094,443</u>	<u>24,846,804</u>
Increase (Decrease) in Net Position						
Before Special Items and Transfers	(714,223)	(742,927)	64,592	(29,443)	(649,631)	(772,370)
Special Items and Transfers	<u>70,133</u>	<u>35,995</u>	<u>(70,133)</u>	<u>(60,790)</u>	<u>-</u>	<u>(24,795)</u>
Increase (Decrease) in Net Position	<u>\$ (644,090)</u>	<u>\$ (706,932)</u>	<u>\$ (5,541)</u>	<u>\$ (90,233)</u>	<u>\$ (649,631)</u>	<u>\$ (797,165)</u>

Governmental Activities

In fiscal year 2014, property taxes accounted for approximately 80% of the revenues. In fiscal year 2013, property taxes accounted for 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

The focus of the Town of Pepperell, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Pepperell, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Pepperell, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Pepperell, Massachusetts' Selectmen.

General Fund – The year end fund balances of the general fund were \$161,119 more than the prior year's fund balances.

The following table reflects the trend in all the components of fund balance (general fund) for the last eight 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 balance in the Stabilization Fund is reported as a component of the general fund unassigned fund balance.

<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
2014	-	225,594	100,236	2,253,448	2,579,278

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 \$26,364,005.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget is consist of Special Town Meeting votes and reserve fund transfers.

Conservative budget estimates allowed the Town to experience favorable operating results for both revenues and expenditures.

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, 2014, amounts to \$45,803,542 (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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</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	3,265,144	3,265,144	3,265,144
Buildings	3,938,557	4,145,055	1,138,859	1,200,093	5,077,416	5,345,148
Improvements Other Than Buildings	118,378	132,601	49,851	59,727	168,229	192,328
Infrastructure	2,489,451	2,602,720	24,595,633	25,477,787	27,085,084	28,080,507
Equipment	265,760	234,863	88,865	110,866	354,625	345,729
Vehicles	1,154,187	1,306,559	58,032	71,986	1,212,219	1,378,545
Total	<u>\$ 15,245,214</u>	<u>\$ 15,700,679</u>	<u>\$ 30,558,328</u>	<u>\$ 31,547,547</u>	<u>\$ 45,803,542</u>	<u>\$ 47,248,226</u>

Debt

The Town had \$11,701,544 in bonds outstanding on June 30, 2014. This represents a \$990,203 decrease.

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Governmental Activities			
General Obligation Bonds Payable	\$ 968,900	\$ 1,096,800	\$ (127,900)
Business-type Activities			
Sewer - Net Unamortized Premium	7,896,644	8,546,947	(650,303)
Water	2,836,000	3,048,000	(212,000)
Enterprise Bonds Payable	10,732,644	11,594,947	(862,303)
Total Debt	<u>\$ 11,701,544</u>	<u>\$ 12,691,747</u>	<u>\$ (990,203)</u>

Fiscal Year 2015 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.

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 2015 budget.

Request for Information

This financial report is designed to provide a general overview of the Town of Pepperell, Massachusetts' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Pepperell
Finance Department
1 Main Street
Pepperell, Massachusetts 01463

Town of Pepperell, Massachusetts
Statement of Net Position
June 30, 2014
(Continued on Page 12)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 3,781,884	\$ 4,690,149	\$ 8,472,033
Petty Cash	375	-	375
Receivables:			
Property Taxes	697,481	-	697,481
Tax Liens	394,278	-	394,278
Excises	194,703	-	194,703
User Charges	427,360	845,021	1,272,381
Other	1,500	-	1,500
Property Taxes Not Due	24,782	-	24,782
Intergovernmental	359,188	-	359,188
Liens	-	86,420	86,420
Special Assessment	-	30,059	30,059
Noncurrent:			
Special Assessments Not Due	-	1,537,838	1,537,838
Capital Assets:			
Assets Not Being Depreciated	7,278,881	4,627,088	11,905,969
Assets Being Depreciated, Net	7,966,333	25,931,240	33,897,573
Total Assets	<u>21,126,765</u>	<u>37,747,815</u>	<u>58,874,580</u>
Liabilities			
Current:			
Warrants Payable	292,701	84,281	376,982
Accrued Salaries Payable	134,407	37,085	171,492
Employees' Withholding Payable	76,146	-	76,146
Intergovernmental	4,787	2,932	7,719
Unclaimed Checks	17,575	-	17,575
Bond Anticipation Notes Payable	311,000	-	311,000
Guarantee Deposits	140,631	-	140,631
Accrued Interest	2,612	154,692	157,304
Bonds Payable	126,900	866,980	993,880
Compensated Absences	85,401	-	85,401
Noncurrent:			
Bonds Payable	842,000	9,865,664	10,707,664
Compensated Absences	341,604	-	341,604
Other Post Employment Benefit Obligations	1,493,194	372,176	1,865,370
Total Liabilities	<u>3,868,958</u>	<u>11,383,810</u>	<u>15,252,768</u>

Town of Pepperell, Massachusetts
Statement of Net Position
June 30, 2014
(Continued from Page 11)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government - Wide Total</u>
Net Position			
Net Investment in Capital Assets	14,004,314	19,825,684	33,829,998
Restricted for:			
Capital Projects	17,974	-	17,974
Debt Service	-	3,737,170	3,737,170
Special Revenue	417,879	-	417,879
Perpetual Funds:			
Expendable	178,363	-	178,363
Nonexpendable	282,080	-	282,080
Unrestricted	2,357,197	2,801,151	5,158,348
Total Net Position	<u>\$ 17,257,807</u>	<u>\$ 26,364,005</u>	<u>\$ 43,621,812</u>

Town of Pepperell, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2014

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	\$ 1,107,666	\$ 156,712	\$ 5,459	\$ -	\$ (945,495)	\$ -	\$ (945,495)
Public Safety	3,142,497	402,137	83,947	-	(2,656,413)	-	(2,656,413)
Education	12,895,367	-	706	-	(12,894,661)	-	(12,894,661)
Highways and Public Works	1,951,152	12,185	452,946	-	(1,486,021)	-	(1,486,021)
Human Services	486,526	1,516	165,208	-	(319,802)	-	(319,802)
Culture and Recreation	664,648	2,434	110,621	-	(551,593)	-	(551,593)
Debt Service	35,511	-	-	-	(35,511)	-	(35,511)
Employee Benefits	1,978,410	-	-	-	(1,978,410)	-	(1,978,410)
Total Governmental Activities	<u>22,261,777</u>	<u>574,984</u>	<u>818,887</u>	<u>-</u>	<u>(20,867,906)</u>	<u>-</u>	<u>(20,867,906)</u>
<i>Business-Type Activities:</i>							
Sewer	2,009,477	2,017,978	64,576	64,591	-	137,668	137,668
Water	1,481,469	1,421,971	-	-	-	(59,498)	(59,498)
Transfer Station	341,720	310,120	-	-	-	(31,600)	(31,600)
Total Business-Type Activities	<u>3,832,666</u>	<u>3,750,069</u>	<u>64,576</u>	<u>64,591</u>	<u>-</u>	<u>46,570</u>	<u>46,570</u>
Total	<u>\$ 26,094,443</u>	<u>\$ 4,325,053</u>	<u>\$ 883,463</u>	<u>\$ 64,591</u>	<u>(20,867,906)</u>	<u>46,570</u>	<u>(20,821,336)</u>
<i>General Revenues:</i>							
Property Taxes					17,134,667	-	17,134,667
Motor Vehicle and Other Excise Taxes					1,492,998	-	1,492,998
Penalties and Interest on taxes					149,185	-	149,185
Intergovernmental					1,330,918	-	1,330,918
Interest and Investment Income					33,228	-	33,228
Other Revenue					9,900	18,022	27,922
Contributions to Permanent Funds					2,787	-	2,787
Transfers In (Out)					70,133	(70,133)	-
Total General Revenues					<u>20,223,816</u>	<u>(52,111)</u>	<u>20,171,705</u>
Change in Net Position					(644,090)	(5,541)	(649,631)
<i>Net Position:</i>							
Beginning of the Year					<u>17,901,897</u>	<u>26,369,546</u>	<u>44,271,443</u>
End of the Year					<u>\$ 17,257,807</u>	<u>\$ 26,364,005</u>	<u>\$ 43,621,812</u>

Town of Pepperell, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash/Investments	\$ 2,730,283	\$ 1,051,601	\$ 3,781,884
Petty Cash	375	-	375
Receivables:			
Property Taxes	697,481	-	697,481
Tax Liens	394,278	-	394,278
Excises	194,703	-	194,703
User Charges	427,360	-	427,360
Other	1,500	-	1,500
Property Taxes Not Due	24,782	-	24,782
Intergovernmental	-	359,188	359,188
Tax Foreclosures	75,074	-	75,074
Total Assets	\$ 4,545,836	\$ 1,410,789	\$ 5,956,625
Liabilities:			
Warrants Payable	\$ 209,616	\$ 83,085	\$ 292,701
Accrued Salaries Payable	127,694	6,713	134,407
Employees' Withholding Payable	76,146	-	76,146
Guarantee Deposits	-	140,631	140,631
Intergovernmental	-	4,787	4,787
Unclaimed Checks	-	17,575	17,575
Bonds Anticipation Notes Payable	-	311,000	311,000
Total Liabilities	413,456	563,791	977,247
Deferred Inflows of Resources:			
Unavailable Revenues	1,553,102	261,702	1,814,804
Total Deferred Inflows of Resources	1,553,102	261,702	1,814,804
Fund Equity:			
Fund Balances:			
Nonspendable	-	282,080	282,080
Restricted	-	557,019	557,019
Committed	225,594	68,009	293,603
Assigned	100,236	-	100,236
Unassigned	2,253,448	(321,812)	1,931,636
Total Fund Balances	2,579,278	585,296	3,164,574
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,545,836	\$ 1,410,789	\$ 5,956,625

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 16,969,213	\$ -	\$ 16,969,213
Tax Liens	88,947	-	88,947
Excises	1,407,730	-	1,407,730
Penalties and Interest	149,185	-	149,185
Licenses and Permits	169,318	-	169,318
Fees and Other Departmental	108,971	105,942	214,913
Intergovernmental	1,442,267	689,023	2,131,290
Charges for Services	279,235	-	279,235
Fines and Forfeits	14,466	-	14,466
Earnings on Investments	33,022	9,451	42,473
In Lieu of Taxes	22,762	-	22,762
Contributions	-	26,955	26,955
Miscellaneous	9,900	13,011	22,911
Total Revenues	20,695,016	844,382	21,539,398
<u>Expenditures:</u>			
General Government	1,061,350	5,912	1,067,262
Public Safety	2,834,646	114,579	2,949,225
Education	12,798,320	2,500	12,800,820
Highways and Public Works	1,271,834	563,551	1,835,385
Human Services	392,308	60,230	452,538
Culture and Recreation	507,878	109,241	617,119
Debt Service	164,196	-	164,196
Intergovernmental	29,690	-	29,690
Employee Benefits	1,589,874	-	1,589,874
Total Expenditures	20,650,096	856,013	21,506,109
Excess of Revenues Over (Under) Expenditures	44,920	(11,631)	33,289
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	225,824	109,625	335,449
Operating Transfers (Out)	(109,625)	(155,691)	(265,316)
Total Other Financing Sources (Uses)	116,199	(46,066)	70,133
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	161,119	(57,697)	103,422
Fund Balance, Beginning	2,418,159	642,993	3,061,152
Fund Balance, Ending	\$ 2,579,278	\$ 585,296	\$ 3,164,574

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, 2014

Total governmental fund balances	\$	3,164,574
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,245,214
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,739,730
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(968,900)
Accrued Interest on Bonds		(2,612)
Other Post Employment Benefit Obligations		(1,493,194)
Compensated Absences		(427,005)
		(2,891,706)
Net position of governmental activities	\$	17,257,807

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, 2014

Net change in fund balances - total governmental funds	\$ 103,422
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(455,465)
Revenues in the Statement of Activities that do not provide current financial resources are unavailable 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 unavailable revenue.	8,156
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 premiums, discounts, and similar items when debt is first issued, whereas these amounts are 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.	128,300
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount is the net result of accrued long-term debt interest.	385
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>(428,888)</u>
Change in net position of governmental activities	<u>\$ (644,090)</u>

Town of Pepperell, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2014

	<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	\$ 3,449,383	\$ 1,077,983	\$ 162,783	\$ 4,690,149
Receivables, Net of Allowance for Uncollectibles:				
User Charges	448,041	396,980	-	845,021
Liens	52,360	34,060	-	86,420
Special Assessments	30,059	-	-	30,059
Noncurrent:				
Special Assessments Not Due	1,537,838	-	-	1,537,838
Assets Not Being Depreciated	1,812,517	2,458,668	355,903	4,627,088
Assets Being Depreciated, Net	17,041,994	8,577,078	312,168	25,931,240
Total Assets	<u>24,372,192</u>	<u>12,544,769</u>	<u>830,854</u>	<u>37,747,815</u>
Liabilities				
Current:				
Warrants Payable	17,271	46,677	20,333	84,281
Accrued Wages Payable	19,630	13,376	4,079	37,085
Intergovernmental	-	2,932	-	2,932
Accrued Interest Payable	120,291	34,401	-	154,692
Bonds Payable	656,980	210,000	-	866,980
Noncurrent:				
Bonds Payable	7,239,664	2,626,000	-	9,865,664
Other Post Employment Benefit Obligations	238,451	76,531	57,194	372,176
Total Liabilities	<u>8,292,287</u>	<u>3,009,917</u>	<u>81,606</u>	<u>11,383,810</u>
Net Position				
Net Investment in Capital Assets	10,957,867	8,199,746	668,071	19,825,684
Restricted for:				
Debt Service	3,737,170	-	-	3,737,170
Unrestricted	1,384,868	1,335,106	81,177	2,801,151
Total Net Position	<u>\$ 16,079,905</u>	<u>\$ 9,534,852</u>	<u>\$ 749,248</u>	<u>\$ 26,364,005</u>

Town of Pepperell, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Operating Revenues:				
Charges for Services	\$ 2,017,978	\$ 1,421,971	\$ 310,120	\$ 3,750,069
Special Assessments	64,591	-	-	64,591
Other Revenues	6,029	8,091	-	14,120
	<u>2,088,598</u>	<u>1,430,062</u>	<u>310,120</u>	<u>3,828,780</u>
Total Operating Revenues				
Operating Expenditures:				
Personal Services	518,269	358,156	110,094	986,519
Nonpersonal Service	603,585	687,674	195,058	1,486,317
Depreciation	634,783	326,367	36,568	997,718
	<u>1,756,637</u>	<u>1,372,197</u>	<u>341,720</u>	<u>3,470,554</u>
Total Operating Expenditures				
Operating Income (Loss)	<u>331,961</u>	<u>57,865</u>	<u>(31,600)</u>	<u>358,226</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	23,895	-	-	23,895
Earnings on Investments	40,681	-	-	40,681
Miscellaneous Revenues	-	3,902	-	3,902
Interest on Debt	(252,840)	(109,272)	-	(362,112)
	<u>(188,264)</u>	<u>(105,370)</u>	<u>-</u>	<u>(293,634)</u>
Total Nonoperating Revenues (Expenses)				
Income (Loss) Before Contributions and Transfers	<u>143,697</u>	<u>(47,505)</u>	<u>(31,600)</u>	<u>64,592</u>
Operating Transfers Out	<u>(36,154)</u>	<u>(33,979)</u>	<u>-</u>	<u>(70,133)</u>
Total Contributions and Transfers	<u>(36,154)</u>	<u>(33,979)</u>	<u>-</u>	<u>(70,133)</u>
Change in Net Position	<u>107,543</u>	<u>(81,484)</u>	<u>(31,600)</u>	<u>(5,541)</u>
Total Net Position July 1, 2013	<u>15,972,362</u>	<u>9,616,336</u>	<u>780,848</u>	<u>26,369,546</u>
Total Net Position June 30, 2014	<u>\$ 16,079,905</u>	<u>\$ 9,534,852</u>	<u>\$ 749,248</u>	<u>\$ 26,364,005</u>

Town of Pepperell, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities</u>			
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 2,526,353	\$ 1,429,854	\$ 310,122	\$ 4,266,329
Payments to Employees	(505,914)	(348,840)	(107,287)	(962,041)
Payments to Vendors	(516,065)	(611,493)	(151,484)	(1,279,042)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,504,374</u>	<u>469,521</u>	<u>51,351</u>	<u>2,025,246</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	-	141	-	141
Transfer from (to) Other Funds	(36,154)	(33,979)	-	(70,133)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(36,154)</u>	<u>(33,838)</u>	<u>-</u>	<u>(69,992)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	-	-	(8,500)	(8,500)
Proceeds from Sales of Capital Assets	-	3,902	-	3,902
Principal Payments on Notes and Bonds	(630,562)	(212,000)	-	(842,562)
Interest Expense	(216,424)	(111,088)	-	(327,512)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(846,986)</u>	<u>(319,186)</u>	<u>(8,500)</u>	<u>(1,174,672)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	30	-	-	30
Net Cash Flows Provided (Used) by Investing Activities	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
Net Increase (Decrease) in Cash and Cash Equivalents	621,264	116,497	42,851	780,612
Cash and Cash Equivalents, July 1, 2013	2,828,119	961,486	119,932	3,909,537
Cash and Cash Equivalents, June 30, 2014	<u>\$ 3,449,383</u>	<u>\$ 1,077,983</u>	<u>\$ 162,783</u>	<u>\$ 4,690,149</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 331,961	\$ 57,865	\$ (31,600)	\$ 358,226
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	634,783	326,367	36,568	997,718
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	437,755	(208)	2	437,549
Increase (Decrease) in Liabilities:				
Warrants and Accounts Payable	99,875	85,497	46,381	231,753
Net Cash Provided by Operating Activities	<u>\$ 1,504,374</u>	<u>\$ 469,521</u>	<u>\$ 51,351</u>	<u>\$ 2,025,246</u>

Town of Pepperell, Massachusetts
Notes to the Financial Statements
June 30, 2014

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2014. The report includes all the services provided by the Town to its residents and businesses within its boundaries. Municipal services provided include 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, 2014 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

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

(A) Government-wide and fund financial statements

Government-Wide Financial Statements

The **government-wide financial statements** (i.e., the **statement of net position** and the **statement of activities**) report information on all of the 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.

Fund Financial Statements

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.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

Government-Wide Financial Statements

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

Fund Financial Statements

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.

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 nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following types are funds that are included in the nonmajor category:

The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The permanent fund is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major 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.

The agency fund is used to account for assets held in a purely custodial capacity.

(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 2014. The budget amounts include special Town meeting votes applicable to fiscal year 2014 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	\$ 20,587,363
Adjustments:	
Sixty Day Property Tax Accrual - Net	101,604
GASB 54 - Stabilization Interest Earnings	6,049
As Reported GAAP Statement	<u>\$ 20,695,016</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 20,765,133
Adjustments:	
July 1, 2013 Encumbrances	180,793
June 30, 2014 Encumbrances	(295,830)
As Reported GAAP Statement	<u>\$ 20,650,096</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) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that do not meet the "available" criteria. The government wide financial statements do not include any deferred inflows/outflows of resources.

(F) Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

Net position that is not restricted or otherwise separately stated is reported as unrestricted.

(G) Fund Balance Classification Policies and Procedures

Fund balance for governmental funds is 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 that the Town report fund balance amounts within one of the fund balance categories listed below:

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

2. **Restricted**, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation,

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen and or Town meeting (the Town's highest level of decision-making authority). Committed fund balance cannot be used for any other purpose unless the same formal action that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose.

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

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

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

Details of Fund Balance Classifications

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

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
General Government	\$ -	\$ 150	\$ 150
Education	-	45,075	45,075
Public Works	-	159,953	159,953
Culture and Recreation	-	76,902	76,902
Total Nonspendable	<u>-</u>	<u>282,080</u>	<u>282,080</u>
Restricted for:			
General Government	-	51,392	51,392
Education	-	28,375	28,375
Public Works	-	47,392	47,392
Human Services	-	25,195	25,195
Culture and Recreation	-	404,665	404,665
Total Restricted	<u>-</u>	<u>557,019</u>	<u>557,019</u>
Committed to:			
General Government	58,249	81	58,330
Public Safety	107,641	-	107,641
Public Works	55,205	49,702	104,907
Human Services	-	797	797
Culture and Recreation	4,499	17,429	21,928
Total Committed	<u>225,594</u>	<u>68,009</u>	<u>293,603</u>
Assigned to:			
General Government	11,580	-	11,580
Public Safety	11,006	-	11,006
Education	47,650	-	47,650
Employee Benefits	30,000	-	30,000
Total Assigned	<u>100,236</u>	<u>-</u>	<u>100,236</u>
Unassigned	<u>2,253,448</u>	<u>(321,812)</u>	<u>1,931,636</u>
Total Fund Balances	<u>\$ 2,579,278</u>	<u>\$ 585,296</u>	<u>\$ 3,164,574</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 \$644,740. 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.

(H) Capital Assets

Capital asset activity for the year ended June 30, 2014 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	73,628	-	1,161,665
Vehicles	3,390,563	33,465	-	3,424,028
Total Capital Assets Being Depreciated	<u>25,490,699</u>	<u>107,093</u>	<u>-</u>	<u>25,597,792</u>

(H) Capital Assets (Continued)

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Buildings	(4,933,079)	(206,498)	-	(5,139,577)
Improvements Other Than Buildings	(335,452)	(14,223)	-	(349,675)
Infrastructure	(8,863,192)	(113,269)	-	(8,976,461)
Equipment	(853,174)	(42,731)	-	(895,905)
Vehicles	(2,084,004)	(185,837)	-	(2,269,841)
Total Accumulated Depreciation	<u>(17,068,901)</u>	<u>(562,558)</u>	<u>-</u>	<u>(17,631,459)</u>
Capital Assets Being Depreciated, Net	<u>8,421,798</u>	<u>(455,465)</u>	<u>-</u>	<u>7,966,333</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,700,679</u>	<u>\$ (455,465)</u>	<u>\$ -</u>	<u>\$ 15,245,214</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 11,735
Public Safety	195,474
Education	94,547
Highways and Public Works	181,800
Human Services	33,934
Culture and Recreation	45,068
Total Governmental Activities Depreciation Expense	<u>\$ 562,558</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	3,265,144	-	-	3,265,144
Total Capital Assets Not Being Depreciated	<u>4,627,088</u>	<u>-</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	8,500	-	746,145
Total Capital Assets Being Depreciated	<u>46,639,684</u>	<u>8,500</u>	<u>-</u>	<u>46,648,184</u>
Less Accumulated Depreciation for:				
Buildings	(1,249,269)	(61,234)	-	(1,310,503)
Improvements Other Than Buildings	(225,387)	(9,876)	-	(235,263)
Infrastructure	(17,241,609)	(882,154)	-	(18,123,763)
Equipment	(337,301)	(22,001)	-	(359,302)
Vehicles	(665,659)	(22,454)	-	(688,113)
Total Accumulated Depreciation	<u>(19,719,225)</u>	<u>(997,719)</u>	<u>-</u>	<u>(20,716,944)</u>
Capital Assets Being Depreciated, Net	<u>26,920,459</u>	<u>(989,219)</u>	<u>-</u>	<u>25,931,240</u>
Business-Type Activities Capital Assets, Net	<u>\$ 31,547,547</u>	<u>\$ (989,219)</u>	<u>\$ -</u>	<u>\$ 30,558,328</u>

(H) Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 634,783
Water	326,367
Transfer Station	36,569
Total Business-type Activities Depreciation Expense	<u>\$ 997,719</u>

(I) Cash and Investments, Property Taxes and Warrants Payable

(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.

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, 2014, \$2,546,565 of the Town's bank balance of \$7,533,887 was uninsured and uncollateralized.

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.

Investments

As of June 30, 2014, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
U. S. Government Obligations	\$ 193,663	\$ -	\$ 193,663	\$ -
Corporation Notes and Bonds	167,802	105,830	61,972	-
Total	<u>\$ 361,465</u>	<u>\$ 105,830</u>	<u>\$ 255,635</u>	<u>\$ -</u>
Other Investments:				
Money Market Funds	\$ 212,752			
Mutual Funds	355,630			
Mass. Municipal Depository Trust	18,581			
Total Other Investment	<u>586,963</u>			
Total Investments	<u>\$ 948,428</u>			

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have a formal policy relating to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

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.

(J) Interfund Transfers, Compensated Absences, Long Term Obligations, Estimates and Total Column

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	\$ 225,824	\$ (109,625)	\$ 116,199
Non-major Governmental	109,625	(155,691)	(46,066)
Enterprise - Business Type	-	(70,133)	(70,133)
Total	<u>\$ 335,449</u>	<u>\$ (335,449)</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) Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and in the fund financial statements for proprietary fund types.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

iv) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

v) Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

(K) Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits. The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

(b) Funding Plan

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

The Town's contributions for the years ending June 30, 2014, 2013 and 2012 were \$907,371, \$815,038 and \$778,181, respectively, equal to 100% of the required contribution each year.

(L) 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, 2014. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information 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, the District provides for a portion of health insurance benefits for eligible plan members. An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service. Currently there are approximately 69 active employees and 54 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, 2014, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$562,066
Interest on Net OPEB Obligation	54,153
Adjustment to Annual Required Contribution	(75,281)
Other Adjustments	220,858
Annual OPEB Cost (Expense)	<u>\$761,796</u>
Contributions Made	<u>(250,265)</u>
Increase in Net OPEB Obligation	<u>511,531</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>1,353,839</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$1,865,370</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>
6/30/2012	\$491,505	52.6%	\$1,135,782
6/30/2013	\$494,626	55.9%	\$1,353,839
6/30/2014	\$761,796	32.9%	\$1,865,370

- c. **Funded Status and Funding Progress.** As of July 1, 2013, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$8,323,545 and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$8,323,545.

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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- 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, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return (same as in prior valuation), 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 5% per year (the previous valuation utilized 13% initially, reduced by decrements of 1% annually to an ultimate rate of 5% 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

2014	\$ 331,673	
2013	174,391	
2012	142,187	
2011	25,346	
Total Real Estate Taxes		\$ 673,597

Personal Property Taxes

2014	\$ 2,935	
2013	1,684	
2012	3,155	
2011	2,754	
2010	2,554	
2009	894	
2008 and prior	776	
Total Personal Property Taxes		14,752

Rollback Taxes		9,132
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Total Property Taxes Receivable		\$ 697,481
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(A) Accounts Receivable (Continued)

Tax Liens		<u>\$ 394,278</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2014	\$ 125,928	
2013	35,429	
2012	11,492	
2011	6,220	
2010	5,536	
2009	5,815	
2008 and prior	4,283	
Tax Excise Receivable	<u></u>	<u>\$ 194,703</u>
Charges for Services:		
Ambulance		<u>\$ 427,360</u>
Other:		
Fines		<u>\$ 1,500</u>
Property Taxes Not Due - Clause 41A		<u>\$ 24,782</u>
Intergovernmental:		
Commonwealth - Highway Funds	\$ 324,876	
Other Federal Grants	34,312	
Total Intergovernmental	<u></u>	<u>\$ 359,188</u>
<u>Business Type Activities:</u>		
User Charges:		
Sewer	\$448,041	
Water	396,980	
Total User Charges	<u></u>	<u>\$845,021</u>
Liens:		
Sewer Liens	\$ 52,360	
Water Liens	34,060	
Total Liens	<u></u>	<u>\$ 86,420</u>
Special Assessments:		
Current:		
Betterments		<u>\$ 30,059</u>
Noncurrent:		
Sewer Betterments Not Yet Due		<u>\$ 1,537,838</u>

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2014 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	\$280,000	\$245,000	\$280,000	\$245,000	2/27/2015	0.60%
Ambulance	<u>99,000</u>	<u>66,000</u>	<u>99,000</u>	<u>66,000</u>	6/19/2015	0.55%
Total	<u>\$379,000</u>	<u>\$311,000</u>	<u>\$379,000</u>	<u>\$311,000</u>		

ii Long Term Debt

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

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

<u>Governmental Activities:</u>	<u>Sale Date Fiscal Year</u>	<u>Original Borrowing</u>	<u>True Interest Cost</u>	<u>Final Maturity Fiscal Year</u>	<u>Balance July 1, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2014</u>
<u>General Obligation Bond</u>								
Senior Center	4/11/2012	\$ 612,500	2.03%	5/15/2022	\$ 545,000	\$ -	\$ (67,500)	\$ 477,500
Park and Recreation Building	4/11/2012	41,200	2.06%	5/15/2022	36,800	-	(4,400)	32,400
Land Aquisition: Pepperell Springs	6/15/2005	800,000	4.50%	6/15/2024	462,000	-	(42,000)	420,000
Comupter Hardware	10/1/2007	41,000	4.12%	10/1/2016	16,000	-	(4,000)	12,000
Radio System of Fire Department	10/1/2007	89,000	4.12%	10/1/2016	37,000	-	(10,000)	27,000
Total Governmental Activities					<u>\$ 1,096,800</u>	<u>\$ -</u>	<u>\$ (127,900)</u>	<u>\$ 968,900</u>

(B) Liabilities

<u>Business Type Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2014</u>
Water Main (Lowell Road)	6/15/2005	500,000	4.50%	6/15/2024	\$ 286,000	\$0	\$ (26,000)	\$ 260,000
Water Tank Rehabs	6/15/2005	150,000	4.50%	6/15/2024	28,000	0	(14,000)	14,000
Water Well- Bemis St Imp	10/1/2007	506,000	4.00%	10/1/2027	375,000	0	(25,000)	350,000
Water Well- Jersey St Imp	10/1/2007	135,000	4.00%	10/1/2027	100,000	0	(7,000)	93,000
Water Wells- Imp'S	10/1/2007	258,000	4.00%	10/1/2027	190,000	0	(13,000)	177,000
Water Main- (Donut Holes)	10/1/2007	70,000	4.01%	10/1/2027	49,000	0	(4,000)	45,000
Water Building - Renovate	10/1/2007	390,000	4.00%	10/1/2027	282,000	0	(21,000)	261,000
Water Well- Nashua/Alves	10/1/2007	200,000	4.00%	10/1/2027	150,000	0	(10,000)	140,000
Water Main	7/15/2010	217,500	3.61%	7/15/2030	192,000	0	(12,000)	180,000
Water Main Upgrade	7/15/2010	125,000	3.63%	7/15/2030	110,000	0	(7,000)	103,000
Water Well - Nashua Road	7/15/2010	1,186,600	3.64%	7/15/2030	1,066,000	0	(60,000)	1,006,000
Water Engineering Services	7/15/2010	250,000	3.63%	7/15/2030	220,000	0	(13,000)	207,000
Sewer: Extension- Jewett St	4/11/2012	132,000	2.03%	5/15/2022	118,000	0	(14,000)	104,000
Sewer: Extension- Lowell Rd	4/11/2012	139,000	1.91%	5/15/2022	123,000	0	(16,000)	107,000
Sewer: Extension- Park St	4/1/2012	30,300	2.07%	5/15/2022	27,200	0	(3,100)	24,100
Sewer: WWTP - Plant Upgrade- Mwpat I	2/1/2005	4,724,930	2.00%	2/1/2025	3,219,601	0	(215,462)	3,004,139
Sewer: Extension- Park St- Finish	6/15/2005	280,000	4.50%	6/15/2024	156,000	0	(15,000)	141,000
Sewer: WWTP - Design/Plans	6/15/2005	350,000	4.50%	6/15/2024	198,000	0	(18,000)	180,000
Sewer: Extension- Mason/Townsend	10/1/2007	475,000	4.00%	10/1/2027	355,000	0	(24,000)	331,000
Sewer: Extension- Donut Holes	10/1/2007	525,000	4.00%	10/1/2027	381,000	0	(28,000)	353,000
Sewer: WWTP- UV Enclosure	10/1/2007	75,000	4.00%	10/1/2027	55,000	0	(4,000)	51,000
Sewer: Equipment	7/15/2010	60,000	2.34%	7/15/2014	28,000	0	(14,000)	14,000
Sewer: Extension - Brookline Village	7/15/2010	1,749,000	3.64%	7/15/2030	1,570,000	0	(88,000)	1,482,000
Sewer: Extension - BHMN	7/15/2010	1,322,000	3.63%	7/15/2030	1,186,000	0	(67,000)	1,119,000
Sewer Refunding debt	7/15/2010	915,000	2.75%	7/15/2018	695,000	0	(110,000)	585,000
Sewer: Engineering Services	7/15/2010	98,150	3.56%	7/15/1930	84,000	0	(6,000)	78,000
Sewer: Engineering Services	7/15/2010	150,000	3.61%	7/15/2030	<u>134,000</u>	<u>0</u>	<u>(8,000)</u>	<u>126,000</u>
Total Business Type Activities					<u>\$ 11,377,801</u>	<u>\$ -</u>	<u>\$ (842,562)</u>	<u>\$10,535,239</u>

(B) Liabilities (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$126,900	\$30,819	\$847,239	\$409,190
2016	122,000	27,156	833,000	378,835
2017	122,000	23,551	843,000	347,705
2018	105,000	20,271	850,000	315,599
2019	105,000	17,174	860,000	282,345
020 - 2024	388,000	36,426	3,732,000	940,415
025 - 2029	0	0	2,070,000	276,594
030 - 2035	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>20,624</u>
	<u>\$968,900</u>	<u>\$155,397</u>	<u>\$10,535,239</u>	<u>\$2,971,307</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>
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>\$623,808</u>	<u>\$681,166</u>	<u>\$57,358</u>

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:

	<u>Refunding Bonds Principal and Interest</u>	<u>Refunded Bonds Principal and Interest</u>	<u>Net Savings</u>
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>\$829,575</u>	<u>\$905,547</u>	<u>\$75,972</u>

(B) Liabilities (Continued)

(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:

	<u>SRF Subsidies</u>
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>\$486,880</u>

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2014, 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	245,000
November 7, 2011	Ambulance	<u>66,000</u>
	Total	<u>\$2,385,000</u>

(B) Liabilities

iii Changes in the government's long-term liabilities for the year ended June 30, 2014 are as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Governmental Activities:					
Bonds Payable	\$ 1,096,800	\$ -	\$ (127,900)	\$ 968,900	\$ 126,900
Compensated Absences	386,653	117,683	(77,331)	427,005	85,401
Other Post Employment Benefits	<u>1,104,658</u>	<u>621,703</u>	<u>(233,167)</u>	<u>1,493,194</u>	<u>-</u>
Total Governmental Activities	<u>\$ 2,588,111</u>	<u>\$ 739,386</u>	<u>\$ (438,398)</u>	<u>\$ 2,889,099</u>	<u>\$ 212,301</u>
Business Type Activities:					
Bonds Payable	\$ 11,377,801	\$ -	\$ (842,562)	\$ 10,535,239	\$ 847,239
Add: Unamortized Premium	<u>217,146</u>	<u>-</u>	<u>(19,741)</u>	<u>197,405</u>	<u>19,741</u>
Total Bonds Payable	11,594,947	-	(862,303)	10,732,644	866,980
Other Post Employment Benefits	<u>249,181</u>	<u>140,093</u>	<u>(17,098)</u>	<u>372,176</u>	<u>-</u>
Total Business Type Activities	<u>\$ 11,844,128</u>	<u>\$ 140,093</u>	<u>\$ (879,401)</u>	<u>\$ 11,104,820</u>	<u>\$ 866,980</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2015 operating and capital budget of \$25,094,905. Fiscal 2015 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid and Non-Property Tax Revenue	\$ 20,830,902
Enterprise Fund Revenues and Available Funds	4,234,003
General Fund - Other	30,000
Total	<u>\$ 25,094,905</u>

V. Significant Commitments

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The assigned fund balance in the general fund includes encumbrances of \$70,236.

VI. Implementation of New GASB Pronouncements

During fiscal year 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, Items Previously Reported as Assets and Liabilities. The implementation of this pronouncement required reporting deferred inflows and deferred outflows of resources.
- GASB Statement #70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #68 will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Middlesex County Retirement System's actuarially accrued liability.

VII. Ambulance Fund

In fiscal year 2014, the activity related to the ambulance fund was moved to the general fund. In the past, the activity was recorded and reported with the non major governmental funds.

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 16,844,875	\$ 16,844,875	\$ 16,850,839	\$ 5,964
Tax Liens		-	88,947	88,947
Excises	1,240,000	1,240,000	1,424,499	184,499
Penalties and Interest	106,077	106,077	149,185	43,108
Licenses and Permits	183,500	183,500	169,318	(14,182)
Fees and Other Departmental	76,800	76,800	108,971	32,171
Intergovernmental	1,465,108	1,465,108	1,442,267	(22,841)
Charges for Services	225,617	225,617	279,235	53,618
Fines and Forfeits	14,500	14,500	14,466	(34)
Earnings on Investments	36,000	36,000	26,974	(9,026)
In Lieu of Taxes	25,000	25,000	22,762	(2,238)
Miscellaneous	12,500	12,500	9,900	(2,600)
Total Revenues	20,229,977	20,229,977	20,587,363	357,386
<u>Expenditures</u>				
Current:				
General Government	1,178,156	1,116,135	1,045,377	70,758
Public Safety	2,759,440	2,986,591	2,926,811	59,780
Education	12,845,971	12,845,971	12,845,970	1
Highway and Public Works	1,078,140	1,227,473	1,258,530	(31,057)
Health and Human Services	406,626	406,624	392,308	14,316
Culture and Recreation	508,386	517,985	512,377	5,608
Debt Service	164,450	164,450	164,196	254
Intergovernmental	29,030	29,030	29,690	(660)
Employee Benefits	1,653,790	1,653,790	1,589,874	63,916
Total Expenditures	20,623,989	20,948,049	20,765,133	182,916
Excess (Deficiency) of Revenues Over Expenditures	(394,012)	(718,072)	(177,770)	540,302
<u>Other Financing Sources (Uses):</u>				
Transfers In	74,728	128,207	225,824	97,617
Transfers Out	(74,625)	(74,625)	(109,625)	(35,000)
Other Available Funds	50,000	50,000	50,000	-
Free Cash	343,909	614,490	614,490	-
Total Other Financing Sources (Uses)	394,012	718,072	780,689	62,617
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	\$ -	\$ 0	\$ 602,919	\$ 602,919

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%
1/1/2014	967,146,018	2,195,732,452	1,228,586,434	44.05%	415,752,810	295.51%

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)
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%
2012	81,933,448	81,933,448	100.00%	778,181	0.95%
2013	88,287,112	88,287,112	100.00%	815,038	0.92%

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

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

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a) / (b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
7/1/07	\$0	\$4,212,794	\$4,212,794	0%	\$5,176,000	81%
7/1/10	\$0	\$7,393,195	\$7,393,195	0%	\$3,907,274	189.2%
7/1/13	\$0	\$8,323,545	\$8,323,545	0%	\$4,422,682	188.2%

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

Town of Pepperell, Massachusetts
 Required Supplementary Information - GASB 45
 Valuation Details
 Fiscal Year Ended June 30, 2014

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	As Level Dollar Amount over 30 years
Remaining Amortization Period	GASB 45 Liability - 25 Years at July 1, 2013 Cumulative Gain/Loss & Adjustment to the ARC - 30 years at July 1, 2013
Asset Valuation Method	Market Value of the Plan's Assets

Actuarial Assumptions:

Investment Rate of Return	4% (same as previous valuation)
Medical/Drug Cost Trend Rate	5.0% in year 2014 and thereafter (13.1% grading down to 5.0% in year 2015 and thereafter in previous valuation)
Dental Cost Trend Rate	5.0% in year 2014 and thereafter (8.5% grading down to 5.0% in year 2015 in previous valuation)

Plan Membership:

Current retirees, beneficiaries, and dependents	54
Current active members	<u>69</u>
Total	<u>123</u>

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

(A) Budgetary Information

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

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

(B) Pension Plans

1. Plan Description

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

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

2. Funding Plan

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

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

3. Actuarial Assumptions

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal 2016 through fiscal 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, 2014, 5 years remaining for the 2002 ERI liability; 6 years remaining for the 2003 ERI liability; 8 years remaining for the 2010 ERI liability and 21 years for the remaining unfunded liability.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted as necessary to be within 20% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.875% (previously, 8.00%)
Projected Salary Increases	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.5% for Group 2, and 4.75% for Group 4 (previously 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

Plan Membership:

Retired Participants and Beneficiaries Receiving Benefits	5,077
Inactive Participants Entitled to a Return of their Employee Contributions	2,632
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	384
Active Participants	<u>9,082</u>
Total	<u>17,175</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, 2014. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

- a. **Plan Description.** In addition to providing pension benefits, the District provides for a portion of health insurance benefits for eligible plan members. An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service. Currently there are approximately 69 active employees and 54 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 Town of Pepperell, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Pepperell's basic financial statements, and have issued our report thereon dated June 4, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pepperell's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

June 4, 2015