

**TOWN OF PEPPERELL, MASSACHUSETTS**

**Financial Statements**

**June 30, 2015**

**(With Accountants' Report Thereon)**

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

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

Town of Pepperell, Massachusetts  
**FINANCIAL STATEMENTS**  
 For the Year Ended June 30, 2015  
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**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***

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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, 2015 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, 2015 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 January 22, 2016, 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

January 22, 2016

**Town of Pepperell, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2015**

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, 2015.

**Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2015 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 and deferred outflows of the Town of Pepperell, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$32,067,539 (net position). The government's total net position decreased by (\$102,551), (not including the prior period adjustment). The Governmental Activities increased by \$689. The business type activities decreased by (\$103,240).

The total revenues (including special items) for fiscal year 2015 was \$26,317,868, of which \$22,432,913 was from governmental activities, and \$3,884,995 from Business-type activities.

The total cost of all Town services for fiscal year 2015 was \$26,420,419, of which \$22,503,760 was for governmental services, and \$3,916,659 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,461,774 or 12% of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt decreased by (\$993,879) or -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>(As Restated)</u>		<u>(As Restated)</u>		<u>(As Restated)</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 6,502,256	\$ 5,881,551	\$ 7,281,881	\$ 7,189,487	\$ 13,784,137	\$ 13,071,038
Capital Assets	14,769,204	15,245,214	29,632,112	30,558,328	44,401,316	45,803,542
Total Assets	<u>21,271,460</u>	<u>21,126,765</u>	<u>36,913,993</u>	<u>37,747,815</u>	<u>58,185,453</u>	<u>58,874,580</u>
Deferred Outflows of Resources	31,081	38,857	8,026	10,027	39,107	48,884
Other Liabilities	1,264,130	1,192,160	1,141,658	1,145,970	2,405,788	2,338,130
Long Term Liabilities	11,882,472	11,818,212	11,868,761	12,597,032	23,751,233	24,415,244
Total Liabilities	<u>13,146,602</u>	<u>13,010,372</u>	<u>13,010,419</u>	<u>13,743,002</u>	<u>26,157,021</u>	<u>26,753,374</u>
Net Position:						
Net Investment in Capital Assets	13,684,204	14,004,314	19,944,113	19,825,684	33,628,317	33,829,998
Restricted	889,678	896,296	3,441,863	3,737,170	4,331,541	4,633,466
Unrestricted	(6,417,943)	(6,745,360)	525,624	451,986	(5,892,319)	(6,293,374)
Total Net Position	<u>\$ 8,155,939</u>	<u>\$ 8,155,250</u>	<u>\$ 23,911,600</u>	<u>\$ 24,014,840</u>	<u>\$ 32,067,539</u>	<u>\$ 32,170,090</u>

The net position of the Town decreased by (\$102,551). The net position of the governmental activities increased by \$689 or less than 1% and the net position of the business-type activities decreased by (\$103,240) or less than 1%.

## Changes in Net Position

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>(As Restated) 2014</u>	<u>2015</u>	<u>(As Restated) 2014</u>	<u>2015</u>	<u>(As Restated) 2014</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 538,613	\$ 574,984	\$ 3,706,993	\$ 3,750,069	\$ 4,245,606	\$ 4,325,053
Operating Grants and Contributions	1,272,630	818,887	69,027	64,576	1,341,657	883,463
Capital Grants and Contributions	-	-	76,374	64,591	76,374	64,591
General Revenues:						
Property Taxes	17,613,711	17,134,667	-	-	17,613,711	17,134,667
Motor Vehicle and Other Excises	1,448,805	1,492,998	-	-	1,448,805	1,492,998
Intergovernmental Not Restricted to a Specific Program	1,369,451	1,330,918	-	-	1,369,451	1,330,918
Other	189,703	195,100	32,561	18,022	222,264	213,122
<b>Total Revenues</b>	<u>22,432,913</u>	<u>21,547,554</u>	<u>3,884,955</u>	<u>3,897,258</u>	<u>26,317,868</u>	<u>25,444,812</u>
<b>Expenses</b>						
General Government	1,072,965	1,107,666	-	-	1,072,965	1,107,666
Public Safety	2,938,020	3,142,497	-	-	2,938,020	3,142,497
Education	13,398,376	12,895,367	-	-	13,398,376	12,895,367
Highways and Public Works	1,942,985	1,951,152	-	-	1,942,985	1,951,152
Human Services	481,312	486,526	-	-	481,312	486,526
Culture and Recreation	599,981	664,648	-	-	599,981	664,648
Debt Service	32,241	35,511	-	-	32,241	35,511
Employee Benefits	2,037,880	1,978,410	-	-	2,037,880	1,978,410
Sewer	-	-	2,065,642	2,009,477	2,065,642	2,009,477
Water	-	-	1,493,484	1,481,469	1,493,484	1,481,469
Transfer Station	-	-	357,533	341,720	357,533	341,720
<b>Total Expenses</b>	<u>22,503,760</u>	<u>22,261,777</u>	<u>3,916,659</u>	<u>3,832,666</u>	<u>26,420,419</u>	<u>26,094,443</u>
Increase (Decrease) in Net Position						
Before Special Items and Transfers	(70,847)	(714,223)	(31,704)	64,592	(102,551)	(649,631)
Special Items and Transfers	71,536	70,133	(71,536)	(70,133)	-	-
Increase (Decrease) in Net Position	<u>\$ 689</u>	<u>\$ (644,090)</u>	<u>\$ (103,240)</u>	<u>\$ (5,541)</u>	<u>\$ (102,551)</u>	<u>\$ (649,631)</u>

### Governmental Activities

In fiscal year 2015, property taxes accounted for approximately 79% of the revenues. In fiscal year 2014, 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 \$355,981 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 nine fiscal years.

<b><u>Fiscal Year</u></b>	<b><u>Reserved for Encumbrances</u></b>	<b><u>For Special Purpose</u></b>	<b><u>Reserved for Subsequent Year's Expenditure</u></b>	<b><u>Unreserved</u></b>	<b><u>Total Fund Balance</u></b>
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.

<b><u>Fiscal Year</u></b>	<b><u>Restricted</u></b>	<b><u>Committed</u></b>	<b><u>Assigned</u></b>	<b><u>Unassigned</u></b>	<b><u>Total Fund Balance</u></b>
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
2015	-	128,837	344,648	2,461,774	2,935,259

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 \$23,911,600.

## 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, 2015, amounts to \$44,401,316 (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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 7,278,881	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,640,825	\$ 8,640,825
Construction in Progress	-	-	3,192,864	3,265,144	3,192,864	3,265,144
Buildings	3,734,532	3,938,557	1,077,625	1,138,859	4,812,157	5,077,416
Improvements Other Than Buildings	106,155	118,378	39,975	49,851	146,130	168,229
Infrastructure	2,376,182	2,489,451	23,834,045	24,595,633	26,210,227	27,085,084
Equipment	228,141	265,760	88,459	88,865	316,600	354,625
Vehicles	1,045,313	1,154,187	37,200	58,032	1,082,513	1,212,219
Total	<u>\$ 14,769,204</u>	<u>\$ 15,245,214</u>	<u>\$ 29,632,112</u>	<u>\$ 30,558,328</u>	<u>\$ 44,401,316</u>	<u>\$ 45,803,542</u>

## Debt

The Town had \$10,707,665 in bonds outstanding on June 30, 2015. This represents a (\$993,879) decrease.

<u>Governmental Activities</u>	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
General Obligation Bonds Payable	\$ 842,000	\$ 968,900	\$ (126,900)
<b>Business-type Activities</b>			
Sewer - Net Unamortized Premium	7,239,665	7,896,644	(656,979)
Water	2,626,000	2,836,000	(210,000)
Enterprise Bonds Payable	9,865,665	10,732,644	(866,979)
Total Debt	<u>\$ 10,707,665</u>	<u>\$ 11,701,544</u>	<u>\$ (993,879)</u>

## Fiscal Year 2016 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 2016 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, 2015  
(Continued on Page 12)

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>Government -</u> <u>Wide</u> <u>Total</u>
<b>Assets</b>			
Current:			
Cash/Investments	\$ 4,143,473	\$ 5,271,834	\$ 9,415,307
Petty Cash		-	-
Receivables:			
Property Taxes	276,818	-	276,818
Tax Liens	868,899	-	868,899
Excises	212,955	-	212,955
User Charges	320,949	582,799	903,748
Other	850	-	850
Property Taxes Not Due	31,419	-	31,419
Intergovernmental	646,893	-	646,893
Liens	-	103,431	103,431
Special Assessment	-	156,687	156,687
Noncurrent:			
Special Assessments Not Due	-	1,167,130	1,167,130
Capital Assets:			
Assets Not Being Depreciated	7,278,881	4,554,808	11,833,689
Assets Being Depreciated, Net	7,490,323	25,077,304	32,567,627
Total Assets	21,271,460	36,913,993	58,185,453
Deferred Outflows of Resources			
Pension	31,081	8,026	39,107
Total Deferred Outflows of Resources	31,081	8,026	39,107
<b>Liabilities</b>			
Current:			
Warrants Payable	134,043	74,403	208,446
Accrued Salaries Payable	141,535	50,447	191,982
Employees' Withholding Payable	109,787	-	109,787
Intergovernmental	4,453	13	4,466
Unclaimed Checks	17,575	-	17,575
Bond Anticipation Notes Payable	243,000	-	243,000
Guarantee Deposits	131,525	-	131,525
Accrued Interest	2,206	144,017	146,223
Bonds Payable	122,000	852,741	974,741
Compensated Absences	84,755	-	84,755
Other Post Employment Benefit Obligations	273,251	20,037	293,288
Noncurrent:			
Bonds Payable	720,000	9,012,924	9,732,924
Compensated Absences	339,019	-	339,019
Net Pension Liability	9,204,701	2,375,474	11,580,175
Other Post Employment Benefit Obligations	1,618,752	480,363	2,099,115
Total Liabilities	13,146,602	13,010,419	26,157,021

Town of Pepperell, Massachusetts  
Statement of Net Position  
June 30, 2015  
(Continued from Page 11)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
<b>Net Position</b>			
Net Investment in Capital Assets	13,684,204	19,944,113	33,628,317
Restricted for:			
Debt Service	-	3,441,863	3,441,863
Special Revenue	429,716	-	429,716
Perpetual Funds:			
Expendable	175,424	-	175,424
Nonexpendable	284,538	-	284,538
Unrestricted	<u>(6,417,943)</u>	<u>525,624</u>	<u>(5,892,319)</u>
Total Net Position	<u>\$ 8,155,939</u>	<u>\$ 23,911,600</u>	<u>\$ 32,067,539</u>

Town of Pepperell, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2015

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	\$ 1,072,965	\$ 187,528	\$ 2,158	\$ -	\$ (883,279)	\$ -	\$ (883,279)
Public Safety	2,938,020	328,860	99,840	-	(2,509,320)	-	(2,509,320)
Education	13,398,376	-	225	-	(13,398,151)	-	(13,398,151)
Highways and Public Works	1,942,985	16,200	823,608	-	(1,103,177)	-	(1,103,177)
Human Services	481,312	2,060	243,124	-	(236,128)	-	(236,128)
Culture and Recreation	599,981	3,965	103,675	-	(492,341)	-	(492,341)
Debt Service	32,241	-	-	-	(32,241)	-	(32,241)
Employee Benefits	2,037,880	-	-	-	(2,037,880)	-	(2,037,880)
Total Governmental Activities	<u>22,503,760</u>	<u>538,613</u>	<u>1,272,630</u>	<u>-</u>	<u>(20,692,517)</u>	<u>-</u>	<u>(20,692,517)</u>
<i>Business-Type Activities:</i>							
Sewer	2,065,642	1,985,484	66,118	76,374	-	62,334	62,334
Water	1,493,484	1,413,931	2,909	-	-	(76,644)	(76,644)
Transfer Station	357,533	307,578	-	-	-	(49,955)	(49,955)
Total Business-Type Activities	<u>3,916,659</u>	<u>3,706,993</u>	<u>69,027</u>	<u>76,374</u>	<u>-</u>	<u>(64,265)</u>	<u>(64,265)</u>
Total	<u>\$ 26,420,419</u>	<u>\$ 4,245,606</u>	<u>\$ 1,341,657</u>	<u>\$ 76,374</u>	<u>(20,692,517)</u>	<u>(64,265)</u>	<u>(20,756,782)</u>
<i>General Revenues:</i>							
Property Taxes					17,613,711	-	17,613,711
Motor Vehicle and Other Excise Taxes					1,448,805	-	1,448,805
Penalties and Interest on taxes					154,361	-	154,361
Intergovernmental					1,369,451	-	1,369,451
Interest and Investment Income					26,224	-	26,224
Other Revenue					5,968	32,561	38,529
Contributions to Permanent Funds					3,150	-	3,150
Transfers In (Out)					71,536	(71,536)	-
Total General Revenues					<u>20,693,206</u>	<u>(38,975)</u>	<u>20,654,231</u>
Change in Net Position					689	(103,240)	(102,551)
<i>Net Position:</i>							
Beginning of the Year					<u>17,257,807</u>	<u>26,364,005</u>	<u>43,621,812</u>
Prior Period Adjustment					<u>(9,102,557)</u>	<u>(2,349,165)</u>	<u>(11,451,722)</u>
Beginning of the Year, as Restated					<u>8,155,250</u>	<u>24,014,840</u>	<u>32,170,090</u>
End of the Year					<u>\$ 8,155,939</u>	<u>\$ 23,911,600</u>	<u>\$ 32,067,539</u>



Town of Pepperell, Massachusetts  
 Governmental Funds  
 Balance Sheet  
 June 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash/Investments	\$ 3,126,402	\$ 1,017,071	\$ 4,143,473
<b>Receivables:</b>			
Property Taxes	276,818	-	276,818
Tax Liens	868,899	-	868,899
Excises	212,955	-	212,955
User Charges	320,949	-	320,949
Other	850	-	850
Property Taxes Not Due	31,419	-	31,419
Intergovernmental	-	646,893	646,893
Total Assets	<u>\$ 4,838,292</u>	<u>\$ 1,663,964</u>	<u>\$ 6,502,256</u>
<b>Liabilities:</b>			
Warrants Payable	\$ 97,278	\$ 36,765	\$ 134,043
Accrued Salaries Payable	134,580	6,955	141,535
Employees' Withholding Payable	109,787	-	109,787
Guarantee Deposits	-	131,525	131,525
Intergovernmental	-	4,453	4,453
Unclaimed Checks	-	17,575	17,575
Bonds Anticipation Notes Payable	-	243,000	243,000
Total Liabilities	<u>341,645</u>	<u>440,273</u>	<u>781,918</u>
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenues	1,561,388	577,013	2,138,401
Total Deferred Inflows of Resources	<u>1,561,388</u>	<u>577,013</u>	<u>2,138,401</u>
<b>Fund Equity:</b>			
<b>Fund Balances:</b>			
Nonspendable	-	284,538	284,538
Restricted	-	553,447	553,447
Committed	128,837	62,892	191,729
Assigned	344,648	-	344,648
Unassigned	2,461,774	(254,199)	2,207,575
Total Fund Balances	<u>2,935,259</u>	<u>646,678</u>	<u>3,581,937</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,838,292</u>	<u>\$ 1,663,964</u>	<u>\$ 6,502,256</u>

Town of Pepperell, Massachusetts  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Fiscal Year Ended June 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$17,277,508	\$ -	\$ 17,277,508
Tax Liens	114,617	-	114,617
Excises	1,455,507	-	1,455,507
Penalties and Interest	154,361	-	154,361
Licenses and Permits	177,960	-	177,960
Fees and Other Departmental	139,071	109,682	248,753
Intergovernmental	1,584,417	592,013	2,176,430
Charges for Services	283,961	-	283,961
Fines and Forfeits	38,006	-	38,006
Earnings on Investments	26,078	4,186	30,264
In Lieu of Taxes	24,463	-	24,463
Contributions	-	30,817	30,817
Miscellaneous	2,118	15,627	17,745
Total Revenues	<u>21,278,067</u>	<u>752,325</u>	<u>22,030,392</u>
<u>Expenditures:</u>			
General Government	1,033,498	4,550	1,038,048
Public Safety	2,700,239	94,358	2,794,597
Education	13,301,379	2,450	13,303,829
Highways and Public Works	1,293,511	493,269	1,786,780
Human Services	383,427	65,632	449,059
Culture and Recreation	458,748	95,837	554,585
Debt Service	159,547	-	159,547
Intergovernmental	30,112	-	30,112
Employee Benefits	1,568,008	-	1,568,008
Total Expenditures	<u>20,928,469</u>	<u>756,096</u>	<u>21,684,565</u>
Excess of Revenues Over (Under) Expenditures	<u>349,598</u>	<u>(3,771)</u>	<u>345,827</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	74,383	68,000	142,383
Operating Transfers (Out)	<u>(68,000)</u>	<u>(2,847)</u>	<u>(70,847)</u>
Total Other Financing Sources (Uses)	<u>6,383</u>	<u>65,153</u>	<u>71,536</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>355,981</u>	<u>61,382</u>	<u>417,363</u>
Fund Balance, Beginning	<u>2,579,278</u>	<u>585,296</u>	<u>3,164,574</u>
Fund Balance, Ending	<u>\$ 2,935,259</u>	<u>\$ 646,678</u>	<u>\$ 3,581,937</u>

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, 2015

Total governmental fund balances	\$	3,581,937
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,769,204
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		2,138,401
Net deferred outflows of Resources of Pension are not financial resources and, therefore, are not reported in the funds.		31,081
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(842,000)
Accrued Interest on Bonds		(2,206)
Other Post Employment Benefit Obligations		(1,892,003)
Net Pension Liability		(9,204,701)
Compensated Absences		(423,774)
		(12,368,784)
Net position of governmental activities	\$	8,155,939

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, 2015

Net change in fund balances - total governmental funds	\$ 417,363
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.	(479,860)
In the statement of activities, the gain on the trade in of capital assets is reported, whereas in the governmental funds, the gain is not reported.	3,850
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.	398,671
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.	126,900
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.	406
Some expenses reported in the Statement of Activities, such as compensated absences, pension 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.	(466,641)
Change in net position of governmental activities	<u><u>\$ 689</u></u>

Town of Pepperell, Massachusetts  
Proprietary Funds  
Statement of Net Position  
June 30, 2015

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
<b>Assets</b>				
Current:				
Cash and Cash Investments	\$ 3,874,016	\$1,225,111	\$ 172,707	\$ 5,271,834
Receivables, Net of Allowance for Uncollectibles:				
User Charges	311,560	271,239	-	582,799
Liens	66,844	36,587	-	103,431
Special Assessments	156,687	-	-	156,687
Noncurrent:				
Special Assessments Not Due	1,167,130	-	-	1,167,130
Assets Not Being Depreciated	1,833,447	2,365,458	355,903	4,554,808
Assets Being Depreciated, Net	16,428,010	8,374,120	275,174	25,077,304
<b>Total Assets</b>	<b><u>23,837,694</u></b>	<b><u>12,272,515</u></b>	<b><u>803,784</u></b>	<b><u>36,913,993</u></b>
Deferred Outflows of Resources				
Pension	3,921	3,138	967	8,026
<b>Total Deferred Outflows of Resources</b>	<b><u>3,921</u></b>	<b><u>3,138</u></b>	<b><u>967</u></b>	<b><u>8,026</u></b>
<b>Liabilities</b>				
Current:				
Warrants Payable	19,000	39,458	15,945	74,403
Accrued Wages Payable	25,084	20,323	5,040	50,447
Intergovernmental	-	13	-	13
Accrued Interest Payable	111,571	32,446	-	144,017
Bonds Payable	657,741	195,000	-	852,741
Other Post Employment Benefit Obligations	4,486	11,768	3,783	20,037
Noncurrent:				
Bonds Payable	6,581,924	2,431,000	-	9,012,924
Net Pension Liability	1,170,986	921,395	283,093	2,375,474
Other Post Employment Benefit Obligations	307,408	95,314	77,641	480,363
<b>Total Liabilities</b>	<b><u>8,878,200</u></b>	<b><u>3,746,717</u></b>	<b><u>385,502</u></b>	<b><u>13,010,419</u></b>
<b>Net Position</b>				
Net Investment in Capital Assets	11,199,457	8,113,579	631,077	19,944,113
Restricted for:				
Debt Service	3,441,863	-	-	3,441,863
Unrestricted	322,095	415,357	(211,828)	525,624
<b>Total Net Position</b>	<b><u>\$ 14,963,415</u></b>	<b><u>\$8,528,936</u></b>	<b><u>\$ 419,249</u></b>	<b><u>\$23,911,600</u></b>

Town of Pepperell, Massachusetts  
Statement of Revenue, Expenses and Changes in Fund Net Position  
Proprietary Funds  
Fiscal Year Ended June 30, 2015

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Operating Revenues:				
Charges for Services	\$ 1,985,484	\$ 1,413,931	\$ 307,578	\$ 3,706,993
Special Assessments	76,374	-	-	76,374
Other Revenues	15,786	13,970	-	29,756
<b>Total Operating Revenues</b>	<b>2,077,644</b>	<b>1,427,901</b>	<b>307,578</b>	<b>3,813,123</b>
Operating Expenditures:				
Personal Services	537,850	407,403	126,748	1,072,001
Nonpersonal Service	625,332	658,274	193,791	1,477,397
Depreciation	631,600	325,478	36,994	994,072
<b>Total Operating Expenditures</b>	<b>1,794,782</b>	<b>1,391,155</b>	<b>357,533</b>	<b>3,543,470</b>
Operating Income (Loss)	282,862	36,746	(49,955)	269,653
Nonoperating Revenues (Expenses):				
Intergovernmental	23,895	-	-	23,895
Earnings on Investments	42,223	2,909	-	45,132
Miscellaneous Revenues	-	2,805	-	2,805
Interest on Debt	(270,860)	(102,329)	-	(373,189)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(204,742)</b>	<b>(96,615)</b>	<b>-</b>	<b>(301,357)</b>
Income (Loss) Before Contributions and Transfers	78,120	(59,869)	(49,955)	(31,704)
Operating Transfers Out	(36,877)	(34,659)	-	(71,536)
<b>Total Contributions and Transfers</b>	<b>(36,877)</b>	<b>(34,659)</b>	<b>-</b>	<b>(71,536)</b>
Change in Net Position	41,243	(94,528)	(49,955)	(103,240)
Total Net Position July 1, 2014	16,079,905	9,534,852	749,248	26,364,005
Prior Period Adjustment	(1,157,733)	(911,388)	(280,044)	(2,349,165)
Total Net Position July 1, 2014, as Restated	14,922,172	8,623,464	469,204	24,014,840
Total Net Position June 30, 2015	<u>\$ 14,963,415</u>	<u>\$ 8,528,936</u>	<u>\$ 419,249</u>	<u>\$ 23,911,600</u>

Town of Pepperell, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2015

	<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	\$ 2,443,721	\$ 1,551,115	\$ 307,578	\$ 4,302,414
Payments to Employees	(532,396)	(400,456)	(125,787)	(1,058,639)
Payments to Vendors	(540,828)	(628,073)	(171,867)	(1,340,768)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,370,497</u>	<u>522,586</u>	<u>9,924</u>	<u>1,903,007</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	-	(2,919)	-	(2,919)
Transfer from (to) Other Funds	(36,877)	(34,659)	-	(71,536)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(36,877)</u>	<u>(37,578)</u>	<u>-</u>	<u>(74,455)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(38,546)	(29,310)	-	(67,856)
Proceeds from Sales of Capital Assets	-	2,805	-	2,805
Principal Payments on Notes and Bonds	(637,238)	(210,000)	-	(847,238)
Interest Expense	(237,646)	(104,284)	-	(341,930)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(913,430)</u>	<u>(340,789)</u>	<u>-</u>	<u>(1,254,219)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	4,443	2,909	-	7,352
Net Cash Flows Provided (Used) by Investing Activities	<u>4,443</u>	<u>2,909</u>	<u>-</u>	<u>7,352</u>
Net Increase (Decrease) in Cash and Cash Equivalents	424,633	147,128	9,924	581,685
Cash and Cash Equivalents, July 1, 2014	3,449,383	1,077,983	162,783	4,690,149
Cash and Cash Equivalents, June 30, 2015	<u>\$ 3,874,016</u>	<u>\$ 1,225,111</u>	<u>\$ 172,707</u>	<u>\$ 5,271,834</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 282,862	\$ 36,746	\$ (49,955)	\$ 269,653
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	631,600	325,478	36,994	994,072
(Increase) Decrease in Assets/Deferred Outflows of Resources				
Accounts Receivable - Customer	366,077	123,214	-	489,291
Deferred Outflows of Resources - Pensions	1,021	752	228	2,001
Increase (Decrease) in Liabilities/Deferred Inflows of Resources				
Warrants and Accounts Payable	80,626	30,279	20,803	131,708
Net Pension Liability	8,311	6,117	1,854	16,282
Net Cash Provided by Operating Activities	<u>\$ 1,370,497</u>	<u>\$ 522,586</u>	<u>\$ 9,924</u>	<u>\$ 1,903,007</u>

Town of Pepperell, Massachusetts  
Notes to the Financial Statements  
June 30, 2015

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2015. 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, 2015 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.

**Transfer Station** – This fund is used to account for Transfer Station activities.

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 2015. The budget amounts include special Town meeting votes applicable to fiscal year 2015 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	\$ 21,385,211
Adjustments:	
Sixty Day Property Tax Accrual - Net	(111,573)
GASB 54 - Stabilization Interest Earnings	4,429
As Reported GAAP Statement	<u>\$ 21,278,067</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 20,825,990
Adjustments:	
July 1, 2014 Encumbrances	295,830
June 30, 2015 Encumbrances	(193,351)
As Reported GAAP Statement	<u>\$ 20,928,469</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 (statement of net position) reflect deferred outflows of net position related to pensions.

(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>	Non Major <u>Funds</u>	<u>Total</u>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
General Government	\$ -	\$ 150	\$ 150
Education	-	44,965	44,965
Public Works	-	162,712	162,712
Culture and Recreation	-	76,711	76,711
<b>Total Nonspendable</b>	<u>-</u>	<u>284,538</u>	<u>284,538</u>
 <b>Restricted for:</b>			
General Government	-	53,727	53,727
Education	-	26,260	26,260
Public Works	-	28,628	28,628
Human Services	-	142,743	142,743
Culture and Recreation	-	302,089	302,089
<b>Total Restricted</b>	<u>-</u>	<u>553,447</u>	<u>553,447</u>
 <b>Committed to:</b>			
General Government	68,975	108	69,083
Public Safety	6,271	-	6,271
Public Works	52,688	45,046	97,734
Human Services	-	797	797
Culture and Recreation	903	16,941	17,844
<b>Total Committed</b>	<u>128,837</u>	<u>62,892</u>	<u>191,729</u>
 <b>Assigned to:</b>			
General Government	33,073	-	33,073
Public Safety	26,494	-	26,494
Public Works	4,946	-	4,946
Capital Outlay and Other	280,135	-	280,135
<b>Total Assigned</b>	<u>344,648</u>	<u>-</u>	<u>344,648</u>
<b>Unassigned</b>	<u>2,461,774</u>	<u>(254,199)</u>	<u>2,207,575</u>
<b>Total Fund Balances</b>	<u>\$ 2,935,259</u>	<u>\$ 646,678</u>	<u>\$ 3,581,937</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 \$649,170. 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) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Middlesex County Retirement System and additions to/deductions from the Systems’ fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(I) Capital Assets

Capital asset activity for the year ended June 30, 2015 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	1,161,665	-	-	1,161,665
Vehicles	3,424,028	67,347	(23,565)	3,467,810
Total Capital Assets Being Depreciated	<u>25,597,792</u>	<u>67,347</u>	<u>(23,565)</u>	<u>25,641,574</u>

(I) Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(5,139,577)	(204,025)	-	(5,343,602)
Improvements Other Than Buildings	(349,675)	(12,223)	-	(361,898)
Infrastructure	(8,976,461)	(113,269)	-	(9,089,730)
Equipment	(895,905)	(37,619)	-	(933,524)
Vehicles	(2,269,841)	(176,221)	23,565	(2,422,497)
Total Accumulated Depreciation	<u>(17,631,459)</u>	<u>(543,357)</u>	<u>23,565</u>	<u>(18,151,251)</u>
Capital Assets Being Depreciated, Net	<u>7,966,333</u>	<u>(476,010)</u>	<u>-</u>	<u>7,490,323</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,245,214</u>	<u>\$ (476,010)</u>	<u>\$ -</u>	<u>\$ 14,769,204</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 9,262
Public Safety	185,623
Education	94,547
Highways and Public Works	176,923
Human Services	33,934
Culture and Recreation	43,068
Total Governmental Activities Depreciation Expense	<u>\$ 543,357</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	3,265,144	48,431	(120,711)	3,192,864
Total Capital Assets Not Being Depreciated	<u>4,627,088</u>	<u>48,431</u>	<u>(120,711)</u>	<u>4,554,808</u>
Assets Being Depreciated:				
Buildings	2,449,362	-	-	2,449,362
Improvements Other Than Buildings	285,114	-	-	285,114
Infrastructure	42,719,396	117,120	-	42,836,516
Equipment	448,167	23,016	-	471,183
Vehicles	746,145	-	-	746,145
Total Capital Assets Being Depreciated	<u>46,648,184</u>	<u>140,136</u>	<u>-</u>	<u>46,788,320</u>
Less Accumulated Depreciation for:				
Buildings	(1,310,503)	(61,234)	-	(1,371,737)
Improvements Other Than Buildings	(235,263)	(9,876)	-	(245,139)
Infrastructure	(18,123,763)	(878,708)	-	(19,002,471)
Equipment	(359,302)	(23,422)	-	(382,724)
Vehicles	(688,113)	(20,832)	-	(708,945)
Total Accumulated Depreciation	<u>(20,716,944)</u>	<u>(994,072)</u>	<u>-</u>	<u>(21,711,016)</u>
Capital Assets Being Depreciated, Net	<u>25,931,240</u>	<u>(853,936)</u>	<u>-</u>	<u>25,077,304</u>
Business-Type Activities Capital Assets, Net	<u>\$ 30,558,328</u>	<u>\$ (805,505)</u>	<u>\$ (120,711)</u>	<u>\$ 29,632,112</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 631,600
Water	325,478
Transfer Station	36,994
Total Business-type Activities Depreciation Expense	<u>\$ 994,072</u>



(J) 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, 2015, \$3,379,440 of the Town's bank balance of \$8,182,993 was uninsured and uncollateralized.

Uninsured and Uncollateralized     \$ 3,379,440

Investments

According to GASB Statement No. 40, ("Deposit and Investment Risk Disclosures") disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates.

As of June 30, 2015, 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>
Certificates of Deposit	\$ 335,626	\$ 275,531	\$ 60,095	\$ -
U. S. Government Obligations	320,037	-	320,037	-
Corporation Notes and Bonds	155,606	-	155,606	-
Total	<u>\$ 811,269</u>	<u>\$ 275,531</u>	<u>\$ 535,738</u>	<u>\$ -</u>

Other Investments:	
Money Market Funds	\$ 400,189
Mutual Funds	128,684
Mass. Municipal Depository Trust	<u>18,621</u>
Total Other Investment	<u>547,494</u>
Total Investments	<u>\$ 1,358,763</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.

(K) 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	\$ 74,383	\$ (68,000)	\$ 6,383
Non-major Governmental	68,000	(2,847)	65,153
Enterprise - Business Type	-	(71,536)	(71,536)
Total	<u>\$ 142,383</u>	<u>\$ (142,383)</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.

(L) Pension Plans

A. General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. 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 (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at <http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31-14%20Financial%20Statements%20and%20GASB%2068.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

The Middlesex County Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary

multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired on or before April 1 2012</u>	
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age and years of creditable service of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
		<u>Hired on after April 1 2012</u>	
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55. Members of Group 4 may retire upon attainment of age 50 with ten years of creditable service.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

#### Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

#### Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

#### Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

#### Contributions

Active members of the Middlesex County 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 requirement of plan members is determined by M.G.L. Chapter 32. The contribution requirements are established by and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2015 was 22.57% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$967,605 for the year ending June 30, 2015.

b. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$11,580,175 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2014, the Town's proportion was 0.963958%. Since this is the implementation year of GASB 68 the increase/decrease of its proportion measured as of December 31, 2013 was not calculated.

Costs related to the Town's pension assessment are charged to the Town's enterprise funds by way of direct or indirect charges. As a result the pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions were allocated to the enterprise funds.

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$15,000 effective July 1, 2014.

For the year ended June 30, 2015, the Town recognized pension expense of \$1,047,174. Since the system performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience a change of assumptions as of December 31, 2014. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are not presented in the initial year of reporting in accordance with GASB Statements 67, 68 and 71. At June 30, 2015, the Town reported deferred outflows of resources

and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	39,107	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 39,107</u>	<u>\$ -</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2016	\$ 9,777
2017	9,777
2018	9,777
2019	9,776



### Actuarial Assumptions

The total pension liability as of December 31, 2014 was determined by updating an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

<b>Valuation date</b>	January 1, 2014																																												
<b>Actuarial Cost Method</b>	Entry age normal cost method																																												
<b>Amortization Method</b>	Prior year's total contribution increased by 6.5% for fiscal year 2014 through fiscal year 2020, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.																																												
<b>Remaining Amortization Period</b>	As of July 1, 2012, 7 years remaining for the 2002 ERI liability; 8 years remaining for the 2003 ERI liability; 10 years remaining for the 2010 ERI liability and 23 years for the remaining unfunded liability.																																												
<b>Asset Valuation Method</b>	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period as described by Revenue Procedure 2000-40.																																												
<b>Investment rate of return</b>	7.875% (8% in previous valuation)																																												
<b>Discount Rate</b>	7.875%																																												
<b>Inflation</b>	4.00%																																												
<b>Projected Salary Increases</b>	<table><thead><tr><th><u>Years of Service</u></th><th><u>Group 1</u></th><th><u>Group 2</u></th><th><u>Group 4</u></th></tr></thead><tbody><tr><td>0</td><td>6.00%</td><td>6.00%</td><td>7.00%</td></tr><tr><td>1</td><td>5.50%</td><td>5.50%</td><td>6.50%</td></tr><tr><td>2</td><td>5.50%</td><td>5.50%</td><td>6.00%</td></tr><tr><td>3</td><td>5.25%</td><td>5.25%</td><td>5.75%</td></tr><tr><td>4</td><td>5.25%</td><td>5.25%</td><td>5.25%</td></tr><tr><td>5</td><td>4.75%</td><td>4.75%</td><td>5.25%</td></tr><tr><td>6</td><td>4.75%</td><td>4.75%</td><td>4.75%</td></tr><tr><td>7</td><td>4.50%</td><td>4.50%</td><td>4.75%</td></tr><tr><td>8</td><td>4.50%</td><td>4.50%</td><td>4.75%</td></tr><tr><td>9+</td><td>4.25%</td><td>4.25%</td><td>4.75%</td></tr></tbody></table>	<u>Years of Service</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>	0	6.00%	6.00%	7.00%	1	5.50%	5.50%	6.50%	2	5.50%	5.50%	6.00%	3	5.25%	5.25%	5.75%	4	5.25%	5.25%	5.25%	5	4.75%	4.75%	5.25%	6	4.75%	4.75%	4.75%	7	4.50%	4.50%	4.75%	8	4.50%	4.50%	4.75%	9+	4.25%	4.25%	4.75%
<u>Years of Service</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>																																										
0	6.00%	6.00%	7.00%																																										
1	5.50%	5.50%	6.50%																																										
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4	5.25%	5.25%	5.25%																																										
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6	4.75%	4.75%	4.75%																																										
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8	4.50%	4.50%	4.75%																																										
9+	4.25%	4.25%	4.75%																																										
<b>Cost of Living Adjustments</b>	3.00% of first \$14,000																																												

#### **Mortality Rates were based on the tables noted below:**

##### Healthy:

Pre-Retirement	RP-2000 Employee Mortality Table projected 22 years with Scale AA (previously, projected 12 years with Scale AA)
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA (previously, projected 12 years with Scale AA)
Disabled	RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA (previously, set forward 2 years and projected 0 years)

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table projected 22 years with Scale AA and the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA were

determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	19.60%	6.60%
International developed markets equity	15.60%	7.10%
International emerging markets equity	6.50%	9.40%
Core fixed income	15.30%	2.20%
High yield fixed income	8.30%	4.70%
Real estate	9.90%	4.40%
Commodities	3.90%	4.40%
Short-term government money market	0.00%	1.80%
Hedge fund, GTAA. Risk parity	9.80%	3.90%
Private equity	11.10%	11.70%
	<u>100%</u>	

#### Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2014 (net of investment expenses) was 7.54%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.875% (8.0% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.875%, as well as what the Middlesex

County Retirement System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.875%) or 1-percentage-point higher (8.875%) than the current rate:

	1% Decrease <u>(6.875%)</u>	Discount Rate <u>(7.875%)</u>	1% Increase <u>(8.875%)</u>
Town's proportionate share of the Net Pension Liability	\$14,002,890	\$11,580,175	\$9,517,518

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System’s website at: <http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31%2014%20Financial%20Statements%20and%20GASB%2068.pdf>.

(M) 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, 2015. 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 Town 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, 2015, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$577,692
Interest on Net OPEB Obligation	74,615
Adjustment to Annual Required Contribution	(103,725)
Other Adjustments	249,302
Annual OPEB Cost (Expense)	<u>\$797,884</u>
Contributions Made	<u>(270,851)</u>
Increase in Net OPEB Obligation	<u>527,033</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>1,865,370</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$2,392,403</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	35.6%	\$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

2015	\$ 175,265	
2014	62,985	
2013	22,962	
Total Real Estate Taxes		<u>\$ 261,212</u>

Personal Property Taxes

2015	\$ 3,890	
2014	2,366	
2013	1,404	
2012	2,605	
2011	1,943	
2010	1,726	
2009 and prior	1,672	
Total Personal Property Taxes		<u>15,606</u>

Total Property Taxes Receivable \$ 276,818

Tax Liens \$ 868,899

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2015	\$ 142,280	
2014	22,276	
2013	20,022	
2012	8,887	
2011	5,677	
2010	4,751	
2009	5,428	
2008	3,634	
Tax Excise Receivable		<u>\$ 212,955</u>

(A) Accounts Receivable (Continued)

Charges for Services:		
Ambulance		<u>\$ 320,949</u>
Other:		
Fines		<u>\$ 850</u>
Property Taxes Not Due - Clause 41A		<u>\$ 31,419</u>
Intergovernmental:		
Commonwealth - Highway Funds	\$ 577,013	
Other Federal and State Grants	69,880	
Total Intergovernmental	<u>        </u>	<u>\$ 646,893</u>
<b><u>Business Type Activities:</u></b>		
User Charges:		
Sewer	\$311,560	
Water	271,239	
Total User Charges	<u>        </u>	<u>\$582,799</u>
Liens:		
Sewer Liens	\$ 66,844	
Water Liens	36,587	
Total Liens	<u>        </u>	<u>\$ 103,431</u>
Special Assessments:		
Current:		
Betterments		<u>\$ 156,687</u>
Noncurrent:		
Sewer Betterments Not Yet Due		<u>\$ 1,167,130</u>

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2015 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>
<b><u>Governmental Activities:</u></b>						
Fire Truck	\$245,000	\$210,000	\$245,000	\$210,000	8/20/2015	0.50%
Ambulance	<u>66,000</u>	<u>33,000</u>	<u>66,000</u>	<u>33,000</u>	6/17/2016	0.55%
Total	<u>\$311,000</u>	<u>\$243,000</u>	<u>\$311,000</u>	<u>\$243,000</u>		

ii Long Term Debt

General obligation bonds outstanding at June 30, 2015, 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, 2015:

<b><u>Governmental Activities:</u></b>	<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, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2015</u>
General Obligation Bond								
Senior Center	4/11/2012	\$ 612,500	2.03%	5/15/2022	\$ 477,500	\$ -	\$ (67,500)	\$ 410,000
Park and Recreation Building	4/11/2012	41,200	2.06%	5/15/2022	32,400	-	(4,400)	28,000
Land Acquisition: Pepperell Springs	6/15/2005	800,000	4.50%	6/15/2024	420,000	-	(42,000)	378,000
Computer Hardware	10/1/2007	41,000	4.12%	10/1/2016	12,000	-	(4,000)	8,000
Radio System of Fire Department	10/1/2007	89,000	4.12%	10/1/2016	27,000	-	(9,000)	18,000
				Total Governmental Activities	<u>\$ 968,900</u>	<u>\$ -</u>	<u>\$ (126,900)</u>	<u>\$ 842,000</u>



## (B) Liabilities (Continued)

<b><u>Business Type Activities:</u></b>	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, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2015</u>
Water Main (Lowell Road)	6/15/2005	500,000	4.50%	6/15/2024	\$ 260,000	\$ -	\$ (26,000)	\$ 234,000
Water Tank Rehabs	6/15/2005	150,000	4.50%	6/15/2024	14,000	-	(14,000)	0
Water Well- Bemis St Imp	10/1/2007	506,000	4.00%	10/1/2027	350,000	-	(25,000)	325,000
Water Well- Jersey St Imp	10/1/2007	135,000	4.00%	10/1/2027	93,000	-	(7,000)	86,000
Water Wells- Imp's	10/1/2007	258,000	4.00%	10/1/2027	177,000	-	(13,000)	164,000
Water Main- (Donut Holes)	10/1/2007	70,000	4.01%	10/1/2027	45,000	-	(4,000)	41,000
Water Building - Renovate	10/1/2007	390,000	4.00%	10/1/2027	261,000	-	(19,000)	242,000
Water Well- Nashua/Alves	10/1/2007	200,000	4.00%	10/1/2027	140,000	-	(10,000)	130,000
Water Main	7/15/2010	217,500	3.61%	7/15/2030	180,000	-	(12,000)	168,000
Water Main Upgrade	7/15/2010	125,000	3.63%	7/15/2030	103,000	-	(7,000)	96,000
Water Well - Nashua Road	7/15/2010	1,186,600	3.64%	7/15/2030	1,006,000	-	(60,000)	946,000
Water Engineering Services	7/15/2010	250,000	3.63%	7/15/2030	207,000	-	(13,000)	194,000
Sewer: Extension- Jewett St	4/11/2012	132,000	2.03%	5/15/2022	104,000	-	(14,000)	90,000
Sewer: Extension- Lowell Rd	4/11/2012	139,000	1.91%	5/15/2022	107,000	-	(16,000)	91,000
Sewer: Extension- Park St	4/1/2012	30,300	2.07%	5/15/2022	24,100	-	(3,100)	21,000
Sewer: WWTP - Plant Upgrade- Mwpatt I	2/1/2005	4,724,930	2.00%	2/1/2025	3,004,139	-	(224,139)	2,780,000
Sewer: Extension- Park St- Finish	6/15/2005	280,000	4.50%	6/15/2024	141,000	-	(15,000)	126,000
Sewer: WWTP - Design/Plans	6/15/2005	350,000	4.50%	6/15/2024	180,000	-	(18,000)	162,000
Sewer: Extension- Mason/Townsend	10/1/2007	475,000	4.00%	10/1/2027	331,000	-	(24,000)	307,000
Sewer: Extension- Donut Holes	10/1/2007	525,000	4.00%	10/1/2027	353,000	-	(26,000)	327,000
Sewer: WWTP- UV Enclosure	10/1/2007	75,000	4.00%	10/1/2027	51,000	-	(4,000)	47,000
Sewer: Equipment	7/15/2010	60,000	2.34%	7/15/2014	14,000	-	(14,000)	0
Sewer: Extension - Brookline Village	7/15/2010	1,749,000	3.64%	7/15/2030	1,482,000	-	(88,000)	1,394,000
Sewer: Extension - BHMN	7/15/2010	1,322,000	3.63%	7/15/2030	1,119,000	-	(67,000)	1,052,000
Sewer Refunding debt	7/15/2010	915,000	2.75%	7/15/2018	585,000	-	(110,000)	475,000
Sewer: Engineering Services	7/15/2010	98,150	3.56%	7/15/1930	78,000	-	(6,000)	72,000
Sewer: Engineering Services	7/15/2010	150,000	3.61%	7/15/2030	<u>126,000</u>	-	<u>(8,000)</u>	<u>118,000</u>
Total Business Type Activities					<u>\$ 10,535,239</u>	<u>\$ -</u>	<u>\$ (847,239)</u>	<u>\$ 9,688,000</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>
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
2020	104,000	13,919	741,000	250,297
2021 - 2025	284,000	22,507	3,686,000	781,430
2026 - 2030	0	0	1,625,000	200,750
2031 - 2035	<u>0</u>	<u>0</u>	<u>250,000</u>	<u>5,156</u>
	<u>\$842,000</u>	<u>\$124,578</u>	<u>\$9,688,000</u>	<u>\$2,562,117</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:

	Refunding Bonds Principal and <u>Interest</u>	Refunded Bonds Principal and <u>Interest</u>	Net <u>Savings</u>
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>\$499,020</u>	<u>\$544,681</u>	<u>\$45,661</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:

	Refunding Bonds Principal and <u>Interest</u>	Refunded Bonds Principal and <u>Interest</u>	Net <u>Savings</u>
2016	\$123,113	\$130,564	\$7,451
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>\$713,563</u>	<u>\$779,259</u>	<u>\$65,696</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</u> <u>Subsidies</u>
2016	\$58,676
2017	55,541
2018	52,276
2019	48,912
2020	45,450
2021-2025	<u>164,350</u>
Total Subsidies	<u>\$425,205</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>
June 27, 2010	Fire Truck	\$210,000
November 7, 2011	Ambulance	<u>33,000</u>
	Total	<u>\$243,000</u>

(B) Liabilities (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2015</u>	Current <u>Portion</u>
Governmental Activities:					
Bonds Payable	\$ 968,900	\$ -	\$ (126,900)	\$ 842,000	\$ 122,000
Compensated Absences	427,005	82,170	(85,401)	423,774	84,755
Net Pension Liability	9,141,414	63,287		9,204,701	
Other Post Employment Benefits	<u>1,493,194</u>	<u>651,155</u>	<u>(252,346)</u>	<u>1,892,003</u>	<u>273,251</u>
Total Governmental Activities	<u>\$ 12,030,513</u>	<u>\$ 796,612</u>	<u>\$ (464,647)</u>	<u>\$ 12,362,478</u>	<u>\$ 480,006</u>
Business Type Activities:					
Bonds Payable	\$ 10,535,239	\$ -	\$ (847,239)	\$ 9,688,000	\$ 833,000
Add: Unamortized Premium	<u>197,405</u>	<u>-</u>	<u>(19,740)</u>	<u>177,665</u>	<u>19,741</u>
Total Bonds Payable	10,732,644	-	(866,979)	9,865,665	852,741
Net Pension Liability	2,359,192	16,282	-	2,375,474	872,482
Other Post Employment Benefits	<u>372,176</u>	<u>146,729</u>	<u>(18,505)</u>	<u>500,400</u>	<u>20,037</u>
Total Business Type Activities	<u>\$ 13,464,012</u>	<u>\$ 163,011</u>	<u>\$ (885,484)</u>	<u>\$ 12,741,539</u>	<u>\$ 1,745,260</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2016 operating and capital budget of \$27,706,246. Fiscal 2016 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	\$ 21,998,875
Enterprise Fund Revenues and Available Funds	<u>5,707,371</u>
Total	<u>\$ 27,706,246</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 \$64,513.

VI. 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.

## VII. Prior Period Adjustment

Fiscal year 2015 is the implementation year for Governmental Accounting Standards Board Statement # 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. In accordance with the statement, a prior period adjustment (\$11,451,722) was made to reflect the net pension liability as of July 1, 2014.

## VIII. Implementation of New GASB Pronouncements

During fiscal year 2015, the following GASB pronouncements were implemented:

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

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

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 77 *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.

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 Statements #73, 74 & 75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

# **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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 17,210,405	\$ 17,338,550	\$ 17,414,035	\$ 75,485
Tax Liens		-	114,617	114,617
Excises	1,350,000	1,350,000	1,430,553	80,553
Penalties and Interest	100,000	100,000	154,361	54,361
Licenses and Permits	164,500	164,500	177,960	13,460
Fees and Other Departmental	103,300	103,300	139,071	35,771
Intergovernmental	1,502,464	1,502,464	1,584,417	81,953
Charges for Services	250,000	250,000	283,961	33,961
Fines and Forfeits	17,000	17,000	38,006	21,006
Earnings on Investments	15,200	15,200	21,649	6,449
In Lieu of Taxes	20,000	20,000	24,463	4,463
Miscellaneous	-	-	2,118	2,118
Total Revenues	<u>20,732,869</u>	<u>20,861,014</u>	<u>21,385,211</u>	<u>524,197</u>
<u>Expenditures</u>				
Current:				
General Government	1,104,950	1,138,898	1,065,717	73,181
Public Safety	2,615,780	2,679,260	2,614,358	64,902
Education	13,253,729	13,253,729	13,253,729	-
Highway and Public Works	1,038,051	1,305,808	1,295,940	9,868
Health and Human Services	394,868	411,056	383,427	27,629
Culture and Recreation	450,330	464,312	455,152	9,160
Debt Service	160,250	160,250	159,547	703
Intergovernmental	30,112	30,112	30,112	-
Employee Benefits	1,718,335	1,695,749	1,568,008	127,741
Total Expenditures	<u>20,766,405</u>	<u>21,139,174</u>	<u>20,825,990</u>	<u>313,184</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(33,536)</u>	<u>(278,160)</u>	<u>559,221</u>	<u>837,381</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	71,536	74,361	74,383	22
Transfers Out	(68,000)	(68,000)	(68,000)	-
Other Available Funds	30,000	30,000	30,000	-
Free Cash	-	241,799	241,799	-
Total Other Financing Sources (Uses)	<u>33,536</u>	<u>278,160</u>	<u>278,182</u>	<u>22</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>-</u>	<u>\$ 837,403</u>	<u>\$ 837,403</u>

Required Supplementary Information  
Schedule of the Town of Pepperell, Massachusetts' Proportionate Share of the Net Pension Liability  
Middlesex County Retirement System  
Last Ten Fiscal Years\*\*

	<u>2015</u>	<u>2014</u>
Town's proportionate share of net pension liability (asset) (%)	3.323072%	0.969880%
Town's proportionate share of net pension liability (asset) (\$)	11,580,175	11,500,606
Town's covered-employee payroll	4,287,483	4,032,304
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	270.09%	285.21%
Plan fiduciary net position as a percentage of the pension liability	47.65%	46.18%

\*\* Historical information prior to implementation of GASB 67/68 is not required.

The amounts presented for each fiscal year were determined as of December 31.



Required Supplementary Information  
Schedule of the Town of Peperell, Massachusetts' Contributions  
Middlesex County Retirement System  
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 967,605	\$ 907,371	\$ 815,038	\$ 778,181	\$ 687,784	\$ 658,167	\$ 679,298	\$ 609,696	\$ 510,972	\$ 453,497
Contributions in relation to the contractually required contribution	<u>(967,605)</u>	<u>(907,371)</u>	<u>(815,038)</u>	<u>(778,181)</u>	<u>(687,784)</u>	<u>(658,167)</u>	<u>(679,298)</u>	<u>(609,696)</u>	<u>(510,972)</u>	<u>(453,497)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	4,287,483	4,032,304	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>							
Contributions as a percentage of covered-employee payroll	22.57%	22.50%								

Town of Pepperell, Massachusetts  
 Required Supplementary Information  
 Schedule of Funding Progress - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2015

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/07	\$0	\$4,212,794	\$4,212,794	0%	\$5,176,000	81%
7/1/10	\$0	\$7,393,195	\$7,393,195	0%	\$3,907,274	189.2%
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  
 Valuation Details - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2015

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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

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**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>

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Town of Pepperell, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2015

(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

a. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The District 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 County Retirement System issues a stand-alone financial report that is available to the public at <http://www.middlesexretirement.org/MCRS%20Final%20Audit%20Report%2012-31-14%20Financial%20Statements%20and%20GASB%2068.pdf> or by writing to the to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

b. Funding Plan

Active members of the Middlesex County 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 District is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The District's contribution requirement is established and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

c. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$15,000 effective July 1, 2014.

d. Change in Assumptions

The following changes were effective January 1, 2014:

- The actuarial cost method was changed to better reflect the impact of the plan changes effective for employees hired on or after April 2, 2012.
- The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 12 years with Scale AA to the RP-2000 Employee Mortality Table projected 22 years with Scale AA.
- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 12 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years to the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA.
- The investment return assumption was lowered from 8.00% to 7.875%.
- The salary increase assumption was changed from level rates of 4.75% per year for Group 1 and Group 2 members and 5.25% per year for Group 4 members, including an allowance for inflation of 4.5% per year, to rates based on years of service with ultimate rates of 4.25% per year for Group 1 members, 4.5% per year for Group 2 members and 4.75% per year for Group 4 members, including an allowance for inflation of 4.0% per year.
- The assumed retirement age for inactive vested participants was changed from age 65 to age 60 for Group 1 and 2 members and remained the same at age 55 for Group 4 members hired prior to April 2, 2012. For participants hired April 2, 2012 or later, the assumption is 60 for Group 1 members, 55 for Group 2 members and 50 for Group 4 members.
- The administrative expense assumption was increased from \$3,100,000 for calendar 2012 to \$3,400,000 for calendar 2014.

f. Schedule of Town's Proportionate Share of the Net Pension Liability - Middlesex County Retirement System

The schedule details the Town's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the Town's covered-employee payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered-employee payroll and the plans fiduciary net position as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

g. Schedule of the Town's Contributions

The schedule details the Town's contractually required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered-employee payroll and the Town's contributions as a percentage of covered-employee payroll. The schedule is a ten year schedule.

(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, 2015. 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 Town 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, 2015, 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 January 22, 2016.

### **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  
January 22, 2016