

Giusti, Hingston and Company
Certified Public Accountants
36 Jackman Street, Unit 1
Georgetown, MA 01833
Tel: 978-352-7470 Fax: 978-352-8812
Email: GiustiHingstonCo@aol.com

January 22, 2016

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

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Pepperell, Massachusetts as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Pepperell, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 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.

We do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Cash Reconciliation

During our review for the fiscal year ended June 30, 2015, we would like to note that the Town Accountant has done a very good job in performing all of the required general ledger recording, posting, reporting and reconciliation duties. We are extremely pleased with the work she is doing. The records are significantly improved from two years ago, when she took over.

In addition to the significant progress, noted above, relating to the Town Accountant's general ledger (and related) work, we also would like to note that the significant progress continues in relation to the cash reconciliation process, between the Treasurer and the Town Accountant. At June 30, 2015, the Treasurer's cashbook is now reconciled to the Accountant's general ledger. The Treasurer and Town Accountant are both doing a very good job relating to all of the cash reconciliation matters.

We want to commend the Treasurer and Town Accountant again on the significant progress they have made, relating to the entire cash reconciliation process during the past two years.

Implementation of Governmental Accounting Standards Board Statement #68

The Governmental Accounting Standards Board (GASB) establishes standards for financial reporting in governmental financial statements prepared in accordance with “accounting principles generally accepted in the United States of America.” A new standard (GASB #68) relating to pensions was required to be implemented in fiscal year 2015.

The Middlesex County Retirement System (the System) has an unfunded pension liability. Prior to the implementation of GASB #68, the System’s unfunded liability as a whole was disclosed in the required supplementary information section of the financial statements of the Town. The Town’s share of the liability was not separately stated in the required supplementary information or reflected in the Town’s Statement of Net Position.

GASB #68 required that the System have an actuary calculate each member of the System’s share of the “net pension liability.” In addition, the Town is required to report its share of the net pension liability in the statement of net position. Each year the System is required to have a new actuarial valuation or a rollover to calculate the liability for reporting as of the next fiscal year end. The Town’s share of the change in the net pension liability will be reported as a pension expense.

Since 2015 is the implementation year, a prior period adjustment is reported (\$11,451,722) in the Town’s income statement to reflect the portion of the net pension liability that is attributable to prior fiscal years. The Town’s share of the net pension liability (\$11,580,175) as of June 30, 2015 is reported as liability in the Town’s Statement of Net Position. Reporting the net pension liability caused a reduction of the Town’s unrestricted net position by the amount of the liability.

Although reporting the net pension liability caused a significant decrease in the Town’s unrestricted net position, we do not believe that it will have a negative impact on the Town’s bond rating. Bond rating agencies have been aware of the unfunded liabilities that were not reported in the statements of net position of municipalities. The information previously reported in the required supplementary information section allowed an informed reader to get a rough estimate of the Town’s share.

Until the implementation of other recent GASB standards, only assets, liabilities and equity accounts appeared on governmental statements of net position (i.e. assets less liabilities equals net position). The new standards include reporting “deferred outflows of resources” and “deferred inflows of resources”, when applicable. Deferred outflows of resources are reflected when resources leave an entity, but, do not meet the accounting definition of an expenditure. Deferred inflows of resources are reflected when resources come in to an entity, but, do not meet the accounting definition of revenue. As a result of these new account classifications the net position balance is calculated as follows:

+ Assets
+ Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
= Net Position

The Town’s Statement of Net Position includes a deferred inflow of resources that is related to the actuarial calculation of the net pension liability/pension expense. The deferred inflow (\$39,107) relates to the difference between the projected and actual earnings on pension plan investments.

The Governmental Accounting Standards Board has recently issued new standards relating to the reporting of the Other Post-Employment Benefits (OPEB) liability. Currently, the reporting of the entire OPEB liability is being phased in over a thirty year period. As a result of the new standards, the entire OPEB liability will be reported in the Town’s fiscal year 2018 financial statements.

Implementation of New GASB Pronouncements

As we noted in the past, the GASB has been very active during the past few years in creating new GASB statements that apply to Governments throughout the country. We have noted below the new pronouncements that become effective during fiscal year 2015 and after. Some of these Statements may not be applicable to the Town. We will work closely with the Town to determine which statements are required to be implemented by the Town.

During fiscal year 2015, the following GASB pronouncements became effective:

- 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 become effective in future fiscal years:

- The GASB issued Statement #72 *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement #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 #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 #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 #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 #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 "Government Wide" financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits (OPEB).

* * * * *

This communication is intended solely for the information and use of management, those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very truly yours,

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants