

**TOWN OF PEPPERELL, MASSACHUSETTS**

**Financial Statements**

**June 30, 2016**

**(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, 2016  
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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, 2016 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, 2016 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 October 31, 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

October 31, 2016

**Town of Pepperell, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2016**

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, 2016.

**Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2016 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 \$31,414,647 (net position). The government's total net position decreased by (\$571,832), (not including the prior period adjustment). The governmental activities decreased by (\$426,153). The business-type activities decreased by (\$145,679).

The total revenues (including special items) for fiscal year 2016 was \$27,531,787, of which \$23,375,943 was from governmental activities, and \$4,155,844 from business-type activities.

The total cost of all Town services for fiscal year 2016 was \$28,115,421, of which \$23,899,513 was for governmental services, and \$4,215,908 of which was for business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,378,875 or 15% of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt decreased by (\$1,049,741) or -10% 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 6,625,892	\$ 6,502,256	\$ 6,780,445	\$ 7,281,881	\$ 13,406,337	\$ 13,784,137
Capital Assets	14,354,273	14,769,204	29,108,661	29,632,112	43,462,934	44,401,316
Total Assets	<u>20,980,165</u>	<u>21,271,460</u>	<u>35,889,106</u>	<u>36,913,993</u>	<u>56,869,271</u>	<u>58,185,453</u>
Deferred Outflows of Resources	690,830	31,081	181,781	8,026	872,611	39,107
Other Liabilities	565,570	1,271,950	967,842	1,141,658	1,533,412	2,413,608
Long Term Liabilities	13,456,699	11,955,712	11,337,124	11,868,761	24,793,823	23,824,473
Total Liabilities	<u>14,022,269</u>	<u>13,227,662</u>	<u>12,304,966</u>	<u>13,010,419</u>	<u>26,327,235</u>	<u>26,238,081</u>
Net Position:						
Net Investment in Capital Assets	13,473,273	13,684,204	20,314,661	19,944,113	33,787,934	33,628,317
Restricted	942,512	889,678	3,179,427	3,441,863	4,121,939	4,331,541
Unrestricted	(6,767,059)	(6,499,003)	271,833	525,624	(6,495,226)	(5,973,379)
Total Net Position	<u>\$ 7,648,726</u>	<u>\$ 8,074,879</u>	<u>\$ 23,765,921</u>	<u>\$ 23,911,600</u>	<u>\$ 31,414,647</u>	<u>\$ 31,986,479</u>

The net position of the Town decreased by (\$571,832). The net position of the governmental activities decreased by (\$426,153) or more than 5% and the net position of the business-type activities decreased by (\$145,679) or less than 1%. The 2015 amounts have changed to reflect a prior period adjustment.

### 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 792,546	\$ 538,613	\$ 3,912,954	\$ 3,706,993	\$ 4,705,500	\$ 4,245,606
Operating Grants and Contributions	882,836	1,272,630	79,265	69,027	962,101	1,341,657
Capital Grants and Contributions	-	-	72,845	76,374	72,845	76,374
General Revenues:						
Property Taxes	18,220,925	17,613,711	-	-	18,220,925	17,613,711
Motor Vehicle and Other Excises	1,575,726	1,448,805	-	-	1,575,726	1,448,805
Intergovernmental Not Restricted to a Specific Program	1,543,501	1,369,451	-	-	1,543,501	1,369,451
Other	360,409	189,703	90,780	32,561	451,189	222,264
<b>Total Revenues</b>	<u>23,375,943</u>	<u>22,432,913</u>	<u>4,155,844</u>	<u>3,884,955</u>	<u>27,531,787</u>	<u>26,317,868</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Expenses</b>						
General Government	1,214,041	1,072,965	-	-	1,214,041	1,072,965
Public Safety	2,977,189	2,938,020	-	-	2,977,189	2,938,020
Education	14,496,620	13,398,376	-	-	14,496,620	13,398,376
Highways and Public Works	1,669,993	1,942,985	-	-	1,669,993	1,942,985
Human Services	511,531	481,312	-	-	511,531	481,312
Culture and Recreation	607,720	599,981	-	-	607,720	599,981
Debt Service	10,088	32,241	-	-	10,088	32,241
Employee Benefits	2,302,248	2,037,880	-	-	2,302,248	2,037,880
Capital Outlay	110,083	-	-	-	110,083	-
Sewer	-	-	2,237,828	2,065,642	2,237,828	2,065,642
Water	-	-	1,601,728	1,493,484	1,601,728	1,493,484
Transfer Station	-	-	376,352	357,533	376,352	357,533
<b>Total Expenses</b>	<u>23,899,513</u>	<u>22,503,760</u>	<u>4,215,908</u>	<u>3,916,659</u>	<u>28,115,421</u>	<u>26,420,419</u>
Increase (Decrease) in Net Position						
Before Special Items and Transfers	(523,570)	(70,847)	(60,064)	(31,704)	(583,634)	(102,551)
Special Items and Transfers	<u>97,417</u>	<u>71,536</u>	<u>(85,615)</u>	<u>(71,536)</u>	<u>11,802</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ (426,153)</u>	<u>\$ 689</u>	<u>\$ (145,679)</u>	<u>\$ (103,240)</u>	<u>\$ (571,832)</u>	<u>\$ (102,551)</u>

### **Governmental Activities**

In fiscal year 2016, property taxes accounted for approximately 78% of the revenues. In fiscal year 2015, property taxes accounted for 79% 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 \$938,440 more than the prior year's fund balances.

The following table reflects the trend in all the components of fund balance (general fund):

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>For Special Purpose</u>	<u>Reserved for Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2007	\$ 167,088	\$ -	\$ -	\$ 1,878,624	\$ 2,045,712
2008	188,128	-	477,859	1,112,907	1,778,894
2009	146,823	-	521,765	861,643	1,530,231
2010	116,417	-	237,129	1,321,804	1,675,350

GASB 54 was implemented in fiscal year 2011. As a result, the account titles of the components of fund balance changed as follows. In addition, in accordance with GASB 54 requirements, the balance in the Stabilization Fund is reported as a component of the general fund unassigned fund balance.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$ -	\$ -	\$ 405,064	\$ 2,099,605	\$ 2,504,669
2012	-	-	407,986	2,280,186	2,688,172
2013	-	156,709	417,993	1,843,457	2,418,159
2014	-	225,594	100,236	2,253,448	2,579,278
2015	-	128,837	344,648	2,461,774	2,935,259
2016	-	78,577	416,247	3,378,875	3,873,699

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 \$23,765,921.

### ***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, 2016, amounts to \$43,462,934 (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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 7,278,881	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,640,825	\$ 8,640,825
Construction in Progress	-	-	114,266	3,192,864	114,266	3,192,864
Buildings	3,532,625	3,734,532	1,016,391	1,077,625	4,549,016	4,812,157
Improvements Other Than Buildings	93,932	106,155	30,657	39,975	124,589	146,130
Infrastructure	2,262,913	2,376,182	26,069,755	23,834,045	28,332,668	26,210,227
Equipment	187,897	228,141	73,847	88,459	261,744	316,600
Vehicles	998,025	1,045,313	441,801	37,200	1,439,826	1,082,513
Total	<u>\$ 14,354,273</u>	<u>\$ 14,769,204</u>	<u>\$ 29,108,661</u>	<u>\$ 29,632,112</u>	<u>\$ 43,462,934</u>	<u>\$ 44,401,316</u>

### **Debt**

The Town had \$9,657,924 in bonds outstanding on June 30, 2016. This represents a (\$1,049,741) decrease.

<b>Governmental Activities</b>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
General Obligation Bonds Payable	\$ 706,000	\$ 842,000	\$ (136,000)
<b>Business-type Activities</b>			
Sewer - Net Unamortized Premium	6,556,424	7,239,665	(683,241)
Water	2,395,500	2,626,000	(230,500)
Enterprise Bonds Payable	8,951,924	9,865,665	(913,741)
Total Debt	<u>\$ 9,657,924</u>	<u>\$ 10,707,665</u>	<u>\$ (1,049,741)</u>

### **Fiscal Year 2017 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 2017 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, 2016  
(Continued on Page 12)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
<b>Assets</b>			
Current:			
Cash/Investments	\$ 4,859,598	\$ 5,017,851	\$ 9,877,449
Receivables:			
Property Taxes	365,988	-	365,988
Tax Liens	140,029	-	140,029
Excises	210,364	-	210,364
User Charges	413,197	602,552	1,015,749
Other	600	-	600
Property Taxes Not Due	38,382	-	38,382
Intergovernmental	597,734	-	597,734
Liens	-	51,074	51,074
Special Assessment	-	139,866	139,866
Noncurrent:			
Special Assessments Not Due	-	969,102	969,102
Capital Assets:			
Assets Not Being Depreciated	7,278,881	1,476,210	8,755,091
Assets Being Depreciated, Net	7,075,392	27,632,451	34,707,843
Total Assets	<u>20,980,165</u>	<u>35,889,106</u>	<u>56,869,271</u>
Deferred Outflows of Resources			
Pension	690,830	181,781	872,611
Total Deferred Outflows of Resources	<u>690,830</u>	<u>181,781</u>	<u>872,611</u>
<b>Liabilities</b>			
Current:			
Warrants Payable	17,905	-	17,905
Accrued Salaries Payable	61,852	16,279	78,131
Employees' Withholding Payable	52,209	-	52,209
Intergovernmental	2,720	26	2,746
Unclaimed Checks	17,575	-	17,575
Landfill	7,820	-	7,820
Bond Anticipation Notes Payable	175,000	-	175,000
Guarantee Deposits	107,376	-	107,376
Accrued Interest	2,113	92,796	94,909
Bonds Payable	121,000	858,741	979,741
Noncurrent:			
Bonds Payable	585,000	8,093,183	8,678,183
Landfill	65,420	-	65,420
Compensated Absences	410,729	-	410,729
Net Pension Liability	10,096,349	2,610,249	12,706,598
Other Post Employment Benefit Obligations	2,299,201	633,692	2,932,893
Total Liabilities	<u>14,022,269</u>	<u>12,304,966</u>	<u>26,327,235</u>

Town of Pepperell, Massachusetts  
Statement of Net Position  
June 30, 2016  
(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	13,473,273	20,314,661	33,787,934
Restricted for:			
Debt Service	-	3,179,427	3,179,427
Special Revenue	469,932	-	469,932
Perpetual Funds:			
Expendable	178,618	-	178,618
Nonexpendable	293,962	-	293,962
Unrestricted	<u>(6,767,059)</u>	<u>271,833</u>	<u>(6,495,226)</u>
Total Net Position	<u>\$ 7,648,726</u>	<u>\$ 23,765,921</u>	<u>\$ 31,414,647</u>

Town of Pepperell, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2016

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	\$ 1,214,041	\$ 153,731	\$ 1,598	\$ -	\$ (1,058,712)	\$ -	\$ (1,058,712)
Public Safety	2,977,189	610,573	98,462	-	(2,268,154)	-	(2,268,154)
Education	14,496,620	-	2,070	-	(14,494,550)	-	(14,494,550)
Highways and Public Works	1,669,993	14,175	443,840	-	(1,211,978)	-	(1,211,978)
Human Services	511,531	10,220	204,903	-	(296,408)	-	(296,408)
Culture and Recreation	607,720	3,847	131,963	-	(471,910)	-	(471,910)
Debt Service	10,088	-	-	-	(10,088)	-	(10,088)
Employee Benefits	2,302,248	-	-	-	(2,302,248)	-	(2,302,248)
Capital Outlay	110,083	-	-	-	(110,083)	-	(110,083)
<b>Total Governmental Activities</b>	<b>23,899,513</b>	<b>792,546</b>	<b>882,836</b>	<b>-</b>	<b>(22,224,131)</b>	<b>-</b>	<b>(22,224,131)</b>
<i>Business-Type Activities:</i>							
Sewer	2,237,828	2,122,601	71,807	72,845	-	29,425	29,425
Water	1,601,728	1,454,945	6,834	-	-	(139,949)	(139,949)
Transfer Station	376,352	335,408	624	-	-	(40,320)	(40,320)
<b>Total Business-Type Activities</b>	<b>4,215,908</b>	<b>3,912,954</b>	<b>79,265</b>	<b>72,845</b>	<b>-</b>	<b>(150,844)</b>	<b>(150,844)</b>
<b>Total</b>	<b>\$ 28,115,421</b>	<b>\$ 4,705,500</b>	<b>\$ 962,101</b>	<b>\$ 72,845</b>	<b>(22,224,131)</b>	<b>(150,844)</b>	<b>(22,374,975)</b>
<i>General Revenues:</i>							
Property Taxes					18,220,925	-	18,220,925
Motor Vehicle and Other Excise Taxes					1,575,726	-	1,575,726
Penalties and Interest on taxes					316,621	-	316,621
Intergovernmental					1,543,501	-	1,543,501
Interest and Investment Income					34,059	-	34,059
Other Revenue					6,954	90,780	97,734
Contributions to Permanent Funds					2,775	-	2,775
Transfers In (Out)					97,417	(85,615)	11,802
<b>Total General Revenues</b>					<b>21,797,978</b>	<b>5,165</b>	<b>21,803,143</b>
<b>Change in Net Position</b>					<b>(426,153)</b>	<b>(145,679)</b>	<b>(571,832)</b>
<i>Net Position:</i>							
Beginning of the Year					8,155,939	23,911,600	32,067,539
Prior Period Adjustment					(81,060)	-	(81,060)
Beginning of the Year, as Restated					8,074,879	23,911,600	31,986,479
End of the Year					<b>\$ 7,648,726</b>	<b>\$ 23,765,921</b>	<b>\$ 31,414,647</b>

Town of Pepperell, Massachusetts  
 Governmental Funds  
 Balance Sheet  
 June 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash/Investments	\$ 3,788,643	\$ 1,070,955	\$ 4,859,598
<b>Receivables:</b>			
Property Taxes	365,988	-	365,988
Tax Liens	140,029	-	140,029
Excises	210,364	-	210,364
User Charges	413,197	-	413,197
Other	600	-	600
Property Taxes Not Due	38,382	-	38,382
Intergovernmental	-	597,734	597,734
Total Assets	\$ 4,957,203	\$ 1,668,689	\$ 6,625,892
<b>Liabilities:</b>			
Warrants Payable	\$ 17,905	\$ -	\$ 17,905
Accrued Salaries Payable	56,828	5,024	61,852
Employees' Withholding Payable	52,209	-	52,209
Guarantee Deposits	-	107,376	107,376
Intergovernmental	-	2,720	2,720
Unclaimed Checks	-	17,575	17,575
Bonds Anticipation Notes Payable	-	175,000	175,000
Total Liabilities	126,942	307,695	434,637
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenues	956,562	593,482	1,550,044
Total Deferred Inflows of Resources	956,562	593,482	1,550,044
<b>Fund Equity:</b>			
<b>Fund Balances:</b>			
Nonspendable	-	293,962	293,962
Restricted	-	585,797	585,797
Committed	78,577	62,753	141,330
Assigned	416,247	-	416,247
Unassigned	3,378,875	(175,000)	3,203,875
Total Fund Balances	3,873,699	767,512	4,641,211
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,957,203	\$ 1,668,689	\$ 6,625,892

Town of Pepperell, Massachusetts  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 18,155,844	\$ -	\$ 18,155,844
Tax Liens	740,061	-	740,061
Excises	1,574,148	-	1,574,148
Penalties and Interest	316,621	-	316,621
Licenses and Permits	230,422	-	230,422
Fees and Other Departmental	145,116	130,722	275,838
Intergovernmental	1,667,430	553,037	2,220,467
Charges for Services	293,789	-	293,789
Fines and Forfeits	29,116	-	29,116
Earnings on Investments	34,059	15,120	49,179
In Lieu of Taxes	23,422	-	23,422
Contributions	-	31,276	31,276
Miscellaneous	22,787	15,544	38,331
Total Revenues	23,232,815	745,699	23,978,514
<u>Expenditures:</u>			
General Government	1,146,793	20,800	1,167,593
Public Safety	2,780,806	78,972	2,859,778
Education	14,402,073	-	14,402,073
Highways and Public Works	1,072,357	404,655	1,477,012
Human Services	401,949	75,552	477,501
Culture and Recreation	464,400	100,586	564,986
Debt Service	146,181	-	146,181
Intergovernmental	30,517	-	30,517
Employee Benefits	1,663,152	-	1,663,152
Capital Outlay	227,864	-	227,864
Total Expenditures	22,336,092	680,565	23,016,657
Excess of Revenues Over (Under) Expenditures	896,723	65,134	961,857
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	109,717	68,000	177,717
Operating Transfers (Out)	(68,000)	(12,300)	(80,300)
Total Other Financing Sources (Uses)	41,717	55,700	97,417
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	938,440	120,834	1,059,274
Fund Balance, Beginning	2,935,259	646,678	3,581,937
Fund Balance, Ending	\$ 3,873,699	\$ 767,512	\$ 4,641,211

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, 2016

Total governmental fund balances	\$	4,641,211
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,354,273
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,550,044
Net deferred outflows of Resources of Pension are not financial resources and, therefore, are not reported in the funds.		690,830
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(706,000)
Accrued Interest on Bonds		(2,113)
Other Post Employment Benefit Obligations		(2,299,201)
Net Pension Liability		(10,096,349)
Compensated Absences		(410,729)
		(13,504,492)
Net position of governmental activities	\$	7,721,966

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, 2016

Net change in fund balances - total governmental funds	\$ 1,059,274
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.	(400,718)
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.	(14,214)
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.	(588,357)
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.	136,000
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.	93
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.	(626,051)
Change in net position of governmental activities	\$ <u>(433,973)</u>

Town of Pepperell, Massachusetts  
Proprietary Funds  
Statement of Net Position  
June 30, 2016

	<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	\$ 3,692,620	\$ 1,147,380	\$ 177,851	\$ 5,017,851
Receivables, Net of Allowance for Uncollectibles:				
User Charges	350,361	252,191	-	602,552
Liens	32,654	18,420	-	51,074
Special Assessments	139,866	-	-	139,866
Noncurrent:				
Special Assessments Not Due	969,102	-	-	969,102
Assets Not Being Depreciated	129,881	990,426	355,903	1,476,210
Assets Being Depreciated, Net	17,895,102	9,495,397	241,952	27,632,451
Total Assets	<u>23,209,586</u>	<u>11,903,814</u>	<u>775,706</u>	<u>35,889,106</u>
Deferred Outflows of Resources				
Pension	89,983	72,081	19,717	181,781
Total Deferred Outflows of Resources	<u>89,983</u>	<u>72,081</u>	<u>19,717</u>	<u>181,781</u>
<b>Liabilities</b>				
Current:				
Accrued Wages Payable	8,058	6,801	1,420	16,279
Intergovernmental	-	26	-	26
Accrued Interest Payable	77,922	14,874	-	92,796
Bonds Payable	664,741	194,000	-	858,741
Noncurrent:				
Bonds Payable	5,891,683	2,201,500	-	8,093,183
Net Pension Liability	1,287,253	1,014,534	308,462	2,610,249
Other Post Employment Benefit Obligations	388,484	138,596	106,612	633,692
Total Liabilities	<u>8,318,141</u>	<u>3,570,331</u>	<u>416,494</u>	<u>12,304,966</u>
<b>Net Position</b>				
Net Investment in Capital Assets	11,626,483	8,090,323	597,855	20,314,661
Restricted for:				
Debt Service	3,179,427	-	-	3,179,427
Unrestricted	175,518	315,241	(218,926)	271,833
Total Net Position	<u>\$ 14,981,428</u>	<u>\$ 8,405,564</u>	<u>\$ 378,929</u>	<u>\$ 23,765,921</u>

Town of Pepperell, Massachusetts  
Statement of Revenue, Expenses and Changes in Fund Net Position  
Proprietary Funds  
Fiscal Year Ended June 30, 2016

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Operating Revenues:				
Charges for Services	\$ 2,122,601	\$ 1,454,945	\$ 335,408	\$ 3,912,954
Special Assessments	72,845	-	-	72,845
Other Revenues	2,882	13,570	-	16,452
<b>Total Operating Revenues</b>	<b>2,198,328</b>	<b>1,468,515</b>	<b>335,408</b>	<b>4,002,251</b>
Operating Expenditures:				
Personal Services	560,525	446,513	131,773	1,138,811
Nonpersonal Service	794,963	737,160	211,357	1,743,480
Depreciation	659,284	341,255	33,222	1,033,761
<b>Total Operating Expenditures</b>	<b>2,014,772</b>	<b>1,524,928</b>	<b>376,352</b>	<b>3,916,052</b>
Operating Income (Loss)	183,556	(56,413)	(40,944)	86,199
Nonoperating Revenues (Expenses):				
Intergovernmental	22,877	-	-	22,877
Earnings on Investments	48,930	6,834	624	56,388
Miscellaneous Revenues	29,321	45,007	-	74,328
Interest on Debt	(223,056)	(76,800)	-	(299,856)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(121,928)</b>	<b>(24,959)</b>	<b>624</b>	<b>(146,263)</b>
Income (Loss) Before Contributions and Transfers	61,628	(81,372)	(40,320)	(60,064)
Operating Transfers Out	(43,615)	(42,000)	-	(85,615)
<b>Total Contributions and Transfers</b>	<b>(43,615)</b>	<b>(42,000)</b>	<b>-</b>	<b>(85,615)</b>
Change in Net Position	18,013	(123,372)	(40,320)	(145,679)
Total Net Position July 1, 2015	14,963,415	8,528,936	419,249	23,911,600
Total Net Position June 30, 2016	<u>\$ 14,981,428</u>	<u>\$ 8,405,564</u>	<u>\$ 378,929</u>	<u>\$ 23,765,921</u>

Town of Pepperell, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2016

	<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	\$ 2,408,566	\$ 1,505,730	\$ 335,408	\$ 4,249,704
Payments to Employees	(577,551)	(460,035)	(135,393)	(1,172,979)
Payments to Vendors	(707,167)	(720,907)	(195,495)	(1,623,569)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,123,848</u>	<u>324,788</u>	<u>4,520</u>	<u>1,453,156</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	-	13	-	13
Transfer from (to) Other Funds	(43,615)	(42,000)	-	(85,615)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(43,615)</u>	<u>(41,987)</u>	<u>-</u>	<u>(85,602)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(422,810)	(87,500)	-	(510,310)
Miscellaneous Revenues	3,820	9,506	-	13,326
Principal Payments on Notes and Bonds	(638,000)	(195,000)	-	(833,000)
Interest Expense	(218,788)	(94,372)	-	(313,160)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(1,275,778)</u>	<u>(367,366)</u>	<u>-</u>	<u>(1,643,144)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	14,149	6,834	624	21,607
Net Cash Flows Provided (Used) by Investing Activities	<u>14,149</u>	<u>6,834</u>	<u>624</u>	<u>21,607</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(181,396)	(77,731)	5,144	(253,983)
Cash and Cash Equivalents, July 1, 2015	<u>3,874,016</u>	<u>1,225,111</u>	<u>172,707</u>	<u>5,271,834</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 3,692,620</u>	<u>\$ 1,147,380</u>	<u>\$ 177,851</u>	<u>\$ 5,017,851</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 183,556	\$ (56,413)	\$ (40,944)	\$ 86,199
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	659,284	341,255	33,222	1,033,761
(Increase) Decrease in Assets/Deferred Outflows of Resources				
Accounts Receivable - Customer	210,238	37,215	-	247,453
Deferred Outflows of Resources - Pensions	(86,062)	(68,943)	(18,750)	(173,755)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources				
Warrants and Accounts Payable	40,565	(21,465)	5,623	24,723
Net Pension Liability	116,267	93,139	25,369	234,775
Net Cash Provided by Operating Activities	<u>\$ 1,123,848</u>	<u>\$ 324,788</u>	<u>\$ 4,520</u>	<u>\$ 1,453,156</u>

Town of Pepperell, Massachusetts  
Notes to the Financial Statements  
June 30, 2016

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2016. 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, 2016 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 2016. The budget amounts include special Town meeting votes applicable to fiscal year 2016 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	\$ 23,151,986
Adjustments:	
Sixty Day Property Tax Accrual - Net	61,495
GASB 54 - Stabilization Interest Earnings	19,334
As Reported GAAP Statement	<u>\$ 23,232,815</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 22,232,220
Adjustments:	
July 1, 2015 Encumbrances	193,350
June 30, 2016 Encumbrances	(89,478)
As Reported GAAP Statement	<u>\$ 22,336,092</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 acquisition 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 are not considered "available" criteria. The government wide financial statements (statement of net position) reflect deferred outflows and deferred inflows of resources related to pension and deferred inflows of resources related to debt exclusions.

(F) Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of

outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

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

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

(G) Fund Balance Classification Policies and Procedures

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires that the Town report fund balance amounts within one of the fund balance categories listed below:

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

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

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

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

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

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

## Details of Fund Balance Classifications

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

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
General Government	\$ -	\$ 153	\$ 153
Education	-	46,010	46,010
Public Works	-	169,305	169,305
Culture and Recreation	-	78,494	78,494
<b>Total Nonspendable</b>	-	293,962	293,962
 <b>Restricted for:</b>			
General Government	-	35,346	35,346
Public Safety	-	8,291	8,291
Education	-	26,056	26,056
Public Works	-	35,461	35,461
Human Services	-	36,458	36,458
Culture and Recreation	-	444,185	444,185
<b>Total Restricted</b>	-	585,797	585,797
 <b>Committed to:</b>			
General Government	26,750	111	26,861
Public Works	51,827	47,193	99,020
Culture and Recreation	-	15,449	15,449
<b>Total Committed</b>	78,577	62,753	141,330
 <b>Assigned to:</b>			
General Government	4,288	-	4,288
Public Safety	5,941	-	5,941
Public Works	585	-	585
Culture and Recreation	443	-	443
Capital Outlay and Other	404,990	-	404,990
<b>Total Assigned</b>	416,247	-	416,247
<b>Unassigned</b>	3,378,875	(175,000)	3,203,875
<b>Total Fund Balances</b>	\$ 3,873,699	\$ 767,512	\$ 4,641,211

### 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 \$668,504. 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 System’s 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, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
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	-	(90,500)	1,071,165
Vehicles	3,467,810	136,961	(124,599)	3,480,172
Total Capital Assets Being Depreciated	<u>25,641,574</u>	<u>136,961</u>	<u>(215,099)</u>	<u>25,563,436</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Buildings	(5,343,602)	(201,907)	-	(5,545,509)
Improvements Other Than Buildings	(361,898)	(12,223)	-	(374,121)
Infrastructure	(9,089,730)	(113,269)	-	(9,202,999)
Equipment	(933,524)	(32,294)	82,550	(883,268)
Vehicles	(2,422,497)	(177,986)	118,336	(2,482,147)
Total Accumulated Depreciation	<u>(18,151,251)</u>	<u>(537,679)</u>	<u>200,886</u>	<u>(18,488,044)</u>
Capital Assets Being Depreciated, Net	<u>7,490,323</u>	<u>(400,718)</u>	<u>(14,213)</u>	<u>7,075,392</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,769,204</u>	<u>\$ (400,718)</u>	<u>\$ (14,213)</u>	<u>\$ 14,354,273</u>

Depreciation expense was charged to functions as follows:

Government Activities:		
General Government	\$	7,144
Public Safety		180,785
Education		94,547
Highways and Public Works		178,201
Human Services		33,934
Culture and Recreation		43,068
Total Governmental Activities Depreciation Expense	<u>\$</u>	<u>537,679</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	3,192,864	65,835	(3,144,433)	114,266
Total Capital Assets Not Being Depreciated	<u>4,554,808</u>	<u>65,835</u>	<u>(3,144,433)</u>	<u>1,476,210</u>
Assets Being Depreciated:				
Buildings	2,449,362	-	-	2,449,362
Improvements Other Than Buildings	285,114	-	-	285,114
Infrastructure	42,836,516	3,144,433	-	45,980,949
Equipment	471,183	7,385	-	478,568
Vehicles	746,145	437,090	(13,684)	1,169,551
Total Capital Assets Being Depreciated	<u>46,788,320</u>	<u>3,588,908</u>	<u>(13,684)</u>	<u>50,363,544</u>
Less Accumulated Depreciation for:				
Buildings	(1,371,737)	(61,234)	-	(1,432,971)
Improvements Other Than Buildings	(245,139)	(9,318)	-	(254,457)
Infrastructure	(19,002,471)	(908,723)	-	(19,911,194)
Equipment	(382,724)	(21,997)	-	(404,721)
Vehicles	(708,945)	(32,489)	13,684	(727,750)
Total Accumulated Depreciation	<u>(21,711,016)</u>	<u>(1,033,761)</u>	<u>13,684</u>	<u>(22,731,093)</u>
Capital Assets Being Depreciated, Net	<u>25,077,304</u>	<u>2,555,147</u>	<u>-</u>	<u>27,632,451</u>
Business-Type Activities Capital Assets, Net	<u>\$ 29,632,112</u>	<u>\$ 2,620,982</u>	<u>\$ (3,144,433)</u>	<u>\$ 29,108,661</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:		
Sewer	\$	659,284
Water		341,255
Transfer Station		33,222
Total Business-type Activities Depreciation Expense	<u>\$</u>	<u>1,033,761</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, 2016, \$3,278,688 of the Town's bank balance of \$9,039,490 was uninsured and uncollateralized.

Uninsured and Uncollateralized    \$ 3,278,688

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, 2016, 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	\$ 251,752	\$ -	\$ 251,752	\$ -
U. S. Government Obligations	496,903	-	496,903	-
Corporation Notes and Bonds	<u>226,009</u>	<u>60,598</u>	<u>165,411</u>	<u>-</u>
Total	<u>\$ 974,664</u>	<u>\$ 60,598</u>	<u>\$ 914,066</u>	<u>\$ -</u>
Other Investments:				
Mutual Funds	\$ 68,956			
Equities	149,148			
Mass. Municipal Depository Trust	<u>18,700</u>			
Total Other Investment	<u>236,804</u>			
 Total Investments	 <u>\$ 1,211,468</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.

Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs

(Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town has the ability to access.

Level 2 -Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Towns' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Town's own data.

The Town has the following recurring fair value measurements as of June 30, 2016:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
<b>Investment by Fair Value Level:</b>				
U. S. Treasuries	\$ 496,903	\$ 496,903	\$ -	\$ -
Corporate Bonds	226,009	226,009	-	-
Mutual Funds	68,956	68,956	-	-
Common Stock	149,148	149,148	-	-
Total Assets in the Fair Value Hierarchy	<u>941,016</u>	<u>941,016</u>	<u>-</u>	<u>-</u>
Certificates of Deposit	251,752			
MMDT	<u>18,700</u>			
Total Investments	<u>\$ 1,211,468</u>			

The investments classified in Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities.

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	\$ 109,717	\$ (68,000)	\$ 41,717
Non-major Governmental	68,000	(12,300)	55,700
Enterprise - Business Type	-	(85,615)	(85,615)
Agency	-	(11,802)	(11,802)
Total	<u>\$ 177,717</u>	<u>\$ (177,717)</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://middlesexretirement.org/wp-content/uploads/2016/09/MCRS-Final-Audit-Report-12-31-15-Financial-Statements-and-GASB-67-68.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 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 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, 2016 was 22.63% 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 \$1,009,146 for the year ending June 30, 2016.

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

At June 30, 2016, the Town reported a liability of \$12,706,598 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, 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, 2015, the Town's proportion was 0.984993%.

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, 2016, the Town recognized pension expense of \$1,245,897. At June 30, 2016, 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	647,939	-
Changes in proportion and differences between contributions and proportionate share of contributions	224,672	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 872,611</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
2017	\$ 220,649
2018	220,649
2019	220,649
2020	210,664

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

<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 2016 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, 2014, 5 years remaining for the 2002 ERI liability; 6 years remaining for the 2003 ERI liability; 8 years remaining for the 2010 ERI liability and 21 years for the remaining unfunded liability.
<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. Asset value is adjusted, as necessary, to be within 20% of market value.
<b>Investment rate of return</b>	7.875% net of pension plan investment expense, including inflation (8% in previous valuation)
<b>Discount Rate</b>	7.875% (previously 8.0%)
<b>Inflation Rate</b>	4.00%

<b>Projected Salary Increases</b> (The ultimate values in the previous valuation were 4.75% for Group 1 and 5.25% for Group 4)	<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%	4.50%	4.75%

<b>Cost of Living Adjustments</b>	3.00% of first \$14,000
<b>Rates of Retirement</b>	Varies based upon age for general employees, police and fire employees.
<b>Rates of Disability</b>	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).

**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%	6.49%
International developed markets equity	15.60%	7.16%
International emerging markets equity	6.50%	9.46%
Core fixed income	15.30%	1.68%
High yield fixed income	8.30%	4.76%
Real estate	9.90%	4.37%
Commodities	3.90%	4.13%
Short-term government money market	0.00%	1.11%
Hedge fund, GTAA. Risk parity	9.80%	3.60%
Private equity	11.10%	11.04%
	<u>100%</u>	

#### Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2015 (net of investment expenses) was 0.61%. (7.54% for December 31, 2014). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is 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	\$15,258,226	\$12,706,598	\$10,533,707

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://middlesexretirement.org/wp-content/uploads/2016/09/MCRS-Final-Audit-Report-12-31-15-Financial-Statements-and-GASB-67-68.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, 2016. 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, 2016, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$592,505
Interest on Net OPEB Obligation	95,696
Adjustment to Annual Required Contribution	(133,032)
Other Adjustments	278,609
Annual OPEB Cost (Expense)	<u>\$833,778</u>
Contributions Made	<u>(293,288)</u>
Increase in Net OPEB Obligation	<u>540,490</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>2,392,403</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$2,932,893</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
6/30/2015	\$797,884	33.9%	\$2,392,403
6/30/2016	\$833,778	35.2%	\$2,932,893

- 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. The actuarial value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 0.0%. The covered payroll as of the valuation date was \$4,422,682 and the UAAL as a percentage of covered payroll was 188.2%.

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		
2016	\$ 235,087	
2015	77,835	
2014	33,639	
2013	3,820	
Total Real Estate Taxes	<u>350,381</u>	<u>\$ 350,381</u>

(A) Accounts Receivable (Continued)

Personal Property Taxes

2016	\$ 3,807	
2015	2,737	
2014	2,217	
2013	1,245	
2012	2,134	
2011	1,863	
2010	1,604	
Total Personal Property Taxes		<u>15,607</u>

Total Property Taxes Receivable \$ 365,988

Tax Liens \$ 140,029

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2016	\$ 125,331	
2015	33,874	
2014	9,099	
2013	16,163	
2012	7,519	
2011	4,664	
2010	4,706	
2009	5,402	
2008	3,606	
Tax Excise Receivable		<u>\$ 210,364</u>

Charges for Services:

Ambulance \$ 413,197

Other:

Fines \$ 600

Property Taxes Not Due - Clause 41A \$ 38,382

Intergovernmental:

Commonwealth - Highway Funds	\$ 596,662	
Other Federal and State Grants	1,072	
Total Intergovernmental		<u>\$ 597,734</u>

(A) Accounts Receivable (Continued)

**Business Type Activities:**

User Charges:		
Sewer	\$350,361	
Water	252,191	
Total User Charges	<u>                    </u>	<u>          \$602,552</u>
Liens:		
Sewer Liens	\$ 32,654	
Water Liens	18,420	
Total Liens	<u>                    </u>	<u>          \$ 51,074</u>
Special Assessments:		
Current:		
Betterments		<u>          \$ 139,866</u>
Noncurrent:		
Sewer Betterments Not Yet Due		<u>          \$ 969,102</u>

(B) Liabilities

(a) The Town has various bond anticipation notes outstanding as of June 30, 2016 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
<u>Governmental Activities:</u>						
Fire Truck	\$210,000	\$175,000	\$210,000	\$175,000	8/19/2016	0.75%
Ambulance	<u>33,000</u>	<u>0</u>	<u>33,000</u>	<u>0</u>		
Total	<u>\$243,000</u>	<u>\$175,000</u>	<u>\$243,000</u>	<u>\$175,000</u>		

Long Term Debt

General obligation bonds outstanding at June 30, 2016, bear interest at various rates.

Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2016:

<u>Governmental Activities:</u>	<u>Sale Date Fiscal Year</u>	<u>Original Borrowing</u>	<u>True Interest Cost</u>	<u>Final Maturity Fiscal Year</u>	<u>Balance July 1, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2016</u>
Senior Center	4/11/2012	\$ 612,500	2.03%	5/15/2022	\$ 410,000	\$ -	\$ (63,000)	\$ 347,000
Park and Recreation Building	4/11/2012	41,200	2.06%	5/15/2022	28,000	-	(4,000)	24,000
Land Acquisition: Pepperell Springs	8/17/2015	364,000	2.08%	8/17/2024	-	364,000	(42,000)	322,000
Computer Hardware	8/17/2015	8,000	2.08%	10/1/2017	-	8,000	(4,000)	4,000
Radio System of Fire Department	8/17/2015	18,000	2.08%	10/1/2017	-	18,000	(9,000)	9,000
Land Acquisition: Pepperell Springs	6/15/2005	800,000	4.50%	6/15/2024	378,000	-	(378,000)	-
Computer Hardware	10/1/2007	41,000	4.12%	10/1/2016	8,000	-	(8,000)	-
Radio System of Fire Department	10/1/2007	89,000	4.12%	10/1/2016	18,000	-	(18,000)	-
Total Governmental Activities					<u>\$ 842,000</u>	<u>\$ 390,000</u>	<u>\$ (526,000)</u>	<u>\$ 706,000</u>

(B) Liabilities (Continued)

<u>Business Type Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2016</u>
Water Main (Lowell Road)	6/15/2005	500,000	4.50%	6/15/2024	\$ 234,000	\$ -	\$ (234,000)	\$ -
Water Well- Bemis St Imp	10/1/2007	506,000	4.00%	10/1/2027	325,000	-	(325,000)	-
Water Well- Jersey St Imp	10/1/2007	135,000	4.00%	10/1/2027	86,000	-	(86,000)	-
Water Wells- Imp's	10/1/2007	258,000	4.00%	10/1/2027	164,000	-	(164,000)	-
Water Main- (Donut Holes)	10/1/2007	70,000	4.01%	10/1/2027	41,000	-	(41,000)	-
Water Building - Renovate	10/1/2007	390,000	4.00%	10/1/2027	242,000	-	(242,000)	-
Water Well- Nashua/Alves	10/1/2007	200,000	4.00%	10/1/2027	130,000	-	(130,000)	-
Water Main (Lowell Road)	8/17/2015	225,000	2.08%	10/1/2024	-	225,000	(26,000)	199,000
Water Well- Bemis St Imp	8/17/2015	291,000	2.08%	10/1/2028	-	291,000	-	291,000
Water Well- Jersey St Imp	8/17/2015	77,000	2.08%	10/1/2028	-	77,000	-	77,000
Water Wells- Imp's	8/17/2015	146,000	2.08%	10/1/2028	-	146,000	-	146,000
Water Main- (Donut Holes)	8/17/2015	36,000	2.08%	10/1/2028	-	36,000	-	36,000
Water Building - Renovate	8/17/2015	216,000	2.08%	10/1/2028	-	216,000	-	216,000
Water Well- Nashua/Alves	8/17/2015	117,500	2.08%	10/1/2028	-	117,500	-	117,500
Water Main	7/15/2010	217,500	3.61%	7/15/2030	168,000	-	(12,000)	156,000
Water Main Upgrade	7/15/2010	125,000	3.63%	7/15/2030	96,000	-	(6,000)	90,000
Water Well - Nashua Road	7/15/2010	1,186,600	3.64%	7/15/2030	946,000	-	(60,000)	886,000
Water Engineering Services	7/15/2010	250,000	3.63%	7/15/2030	194,000	-	(13,000)	181,000
Sewer: Extension- Jewett St	4/11/2012	132,000	2.03%	5/15/2022	90,000	-	(14,000)	76,000
Sewer: Extension- Lowell Rd	4/11/2012	139,000	1.91%	5/15/2022	91,000	-	(16,000)	75,000
Sewer: Extension- Park St	4/1/2012	30,300	2.07%	5/15/2022	21,000	-	(3,000)	18,000
Sewer: WWTP - Plant Upgrade- Mata Loan	2/1/2005	4,724,930	2.00%	2/1/2025	2,780,000	-	(235,000)	2,545,000
Sewer: Extension- Park St- Finish	6/15/2005	280,000	4.50%	6/15/2024	126,000	-	(126,000)	-
Sewer: WWTP - Design/Plans	6/15/2005	350,000	4.50%	6/15/2024	162,000	-	(162,000)	-
Sewer: Extension- Mason/Townsend	10/1/2007	475,000	4.00%	10/1/2027	307,000	-	(307,000)	-
Sewer: Extension- Donut Holes	10/1/2007	525,000	4.00%	10/1/2027	327,000	-	(327,000)	-
Sewer: WWTP- UV Enclosure	10/1/2007	75,000	4.00%	10/1/2027	47,000	-	(47,000)	-
Sewer: Extension- Park St- Finish	8/17/2015	122,000	2.08%	10/1/2024	-	122,000	(14,000)	108,000
Sewer: WWTP - Design/Plans	8/17/2015	156,000	2.08%	10/1/2024	-	156,000	(18,000)	138,000
Sewer: Extension- Mason/Townsend	8/17/2015	277,000	2.08%	10/1/2028	-	277,000	-	277,000
Sewer: Extension- Donut Holes	8/17/2015	292,500	2.08%	10/1/2028	-	292,500	-	292,500
Sewer: WWTP- UV Enclosure	8/17/2015	42,000	2.08%	10/1/2028	-	42,000	-	42,000
Sewer: Extension - Brookline Village	7/15/2010	1,749,000	3.64%	7/15/2030	1,394,000	-	(88,000)	1,306,000
Sewer: Extension - BHMN	7/15/2010	1,322,000	3.63%	7/15/2030	1,052,000	-	(67,000)	985,000
Sewer Refunding debt	7/15/2010	915,000	2.75%	7/15/2018	475,000	-	(115,000)	360,000
Sewer: Engineering Services	7/15/2010	98,150	3.56%	7/15/1930	72,000	-	(6,000)	66,000
Sewer: Engineering Services	7/15/2010	150,000	3.61%	7/15/2030	<u>118,000</u>	-	<u>(8,000)</u>	<u>110,000</u>
Total Business Type Activities					<u>\$9,688,000</u>	<u>\$1,998,000</u>	<u>\$(2,892,000)</u>	<u>\$ 8,794,000</u>

**(B) Liabilities**

(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>
2017	\$121,000	\$20,413	\$839,000	\$330,756
2018	104,000	17,172	851,000	298,710
2019	104,000	14,115	861,000	265,416
2020	102,000	10,920	738,000	233,408
2021	101,000	7,460	744,000	202,971
2022 - 2026	174,000	5,600	3,286,000	576,932
2027 - 2031	<u>0</u>	<u>0</u>	<u>1,475,000</u>	<u>134,175</u>
	<u>\$706,000</u>	<u>\$75,680</u>	<u>\$8,794,000</u>	<u>\$2,042,368</u>

(c) On July 15, 2010, the Town issued \$915,000 of Refunding Bonds to refund \$905,000 of General Obligation Bonds. The net savings from this refunding issue was \$98,328. The principal and interest costs on the refunded debt and the refunding debt are shown below:

	<u>Refunding Bonds Principal and Interest</u>	<u>Refunded Bonds Principal and Interest</u>	<u>Net Savings</u>
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>\$371,907</u>	<u>\$408,512</u>	<u>\$36,605</u>

On April 11, 2012, the Town issued \$955,000 of Refunding Bonds to refund \$935,000 of General Obligation Bonds. The net savings from this refunding issue was \$94,818. The principal and interest costs on the refunded debt and the refunding debt are shown below:

	<u>Refunding Bonds Principal and Interest</u>	<u>Refunded Bonds Principal and Interest</u>	<u>Net Savings</u>
2017	\$123,113	\$130,564	\$7,451
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>\$599,551</u>	<u>\$657,341</u>	<u>\$57,790</u>

## (B) Liabilities

On August 17, 2015, the Town issued \$2,375,000 of Refunding Bonds to refund \$2,450,000 of General Obligation Bonds. The new savings from this refunding issue was \$246,652. 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>
2017	\$311,625	\$336,712	\$25,088
2018	292,225	312,213	19,988
2019	283,025	303,012	19,988
2020	268,925	293,813	24,888
2021	259,925	284,612	24,688
2022	250,925	275,413	24,488
2023	244,175	266,112	21,938
2024	229,775	251,888	22,113
2025	131,125	142,688	11,563
2026	123,188	137,656	14,469
2027	120,025	132,594	12,569
2028	<u>111,650</u>	<u>127,531</u>	<u>15,881</u>
	<u>\$2,626,588</u>	<u>\$2,864,244</u>	<u>\$237,656</u>

### (d) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (MWPAT) was created by Chapter 275 of the acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has bonded several issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	SRF <u>Subsidies</u>
2017	\$55,541
2018	52,276
2019	48,912
2020	45,450
2021	41,857
2022-2025	<u>122,493</u>
Total Subsidies	<u>\$366,529</u>

(B) Liabilities

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2016, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
June 27, 2010	Fire Truck	<u>\$175,000</u>
	Total	<u>\$175,000</u>

Changes in the government's long-term liabilities for the year ended June 30, 2016 are as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Bonds Payable	\$ 842,000	\$ 390,000	\$ (526,000)	\$ 706,000	\$ 121,000
Landfill Liability	81,060		(7,820)	73,240	7,820
Compensated Absences	423,774	71,710	(84,755)	410,729	-
Net Pension Liability	9,204,701	1,690,570	(798,922)	10,096,349	-
Other Post Employment Benefits	<u>1,892,003</u>	<u>680,449</u>	<u>(273,251)</u>	<u>2,299,201</u>	<u>-</u>
Total Governmental Activities	<u>\$ 12,443,538</u>	<u>\$ 2,832,729</u>	<u>\$ (1,690,748)</u>	<u>\$ 13,585,519</u>	<u>\$ 128,820</u>
Business Type Activities:					
Total Bonds Payable	\$ 9,865,665	\$ 1,998,000	\$ (2,911,740)	\$ 8,951,925	\$ 858,741
Net Pension Liability	2,375,474	444,999	(210,224)	2,610,249	-
Other Post Employment Benefits	<u>500,400</u>	<u>153,329</u>	<u>(20,037)</u>	<u>633,692</u>	<u>-</u>
Total Business Type Activities	<u>\$ 12,741,539</u>	<u>\$ 2,596,328</u>	<u>\$ (3,142,001)</u>	<u>\$ 12,195,866</u>	<u>\$ 858,741</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2017 operating and capital budget of \$27,436,438. Fiscal 2017 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	\$ 22,876,494
Enterprise Fund Revenues and Available Funds	4,154,642
Other Available Funds	405,347
Total	<u>\$ 27,436,483</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 \$89,477.

## 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

A prior period adjustment of \$81,060 was made to record the June 30, 2015 estimated landfill liability. The landfill was closed and capped in 1997. State and Federal regulations require that landfill closures meet certain standards. Among the standards is the requirement to monitor the landfill for 30 years. Accounting principles generally accepted in the United States of America require recognition of a liability for closure and postclosure costs based on landfill capacity used to date. The landfill capacity used to date (as for June 30, 2016) is 100%. The Town's estimated cost for monitoring is included as a liability in the Statement of Net Position. This landfill liability should have been recorded in the audited financial statements in prior years, but, it was not, in error.

## VIII. Implementation of New GASB Pronouncements

During fiscal year 2016, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*. The standard created a hierarchy of the valuation methods used in determining the fair value of investments. The implementation of this pronouncement required new disclosures related to the Town's investments.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The implementation of this pronouncement did not impact the financial statements.

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

- The GASB issued Statement 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. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.

- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.

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 #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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b><u>Revenues</u></b>				
Property Taxes	\$ 18,165,171	\$ 18,165,171	\$ 18,090,180	\$ (74,991)
Tax Liens	25,000	25,000	740,061	715,061
Excises	1,410,000	1,410,000	1,578,317	168,317
Penalties and Interest	75,000	75,000	316,621	241,621
Licenses and Permits	167,400	167,400	230,422	63,022
Fees and Other Departmental	100,400	100,400	145,116	44,716
Intergovernmental	1,578,314	1,578,314	1,667,430	89,116
Charges for Services	370,292	370,292	293,789	(76,503)
Fines and Forfeits	17,000	17,000	29,116	12,116
Earnings on Investments	15,200	15,200	14,725	(475)
In Lieu of Taxes	20,000	20,000	23,422	3,422
Miscellaneous	-	-	22,787	22,787
Total Revenues	<u>21,943,777</u>	<u>21,943,777</u>	<u>23,151,986</u>	<u>1,208,209</u>
<b><u>Expenditures</u></b>				
Current:				
General Government	1,118,819	1,102,881	1,075,784	27,097
Public Safety	2,706,828	2,787,755	2,751,561	36,194
Education	14,430,551	14,402,073	14,402,073	-
Highway and Public Works	1,037,609	1,080,129	1,067,135	12,994
Health and Human Services	398,793	415,378	401,949	13,429
Culture and Recreation	473,926	474,248	463,940	10,308
Debt Service	151,157	146,197	146,181	16
Intergovernmental	30,517	30,517	30,517	-
Employee Benefits	1,672,327	1,663,627	1,663,152	475
Capital Outlay	221,000	230,887	229,928	959
Total Expenditures	<u>22,241,527</u>	<u>22,333,692</u>	<u>22,232,220</u>	<u>101,472</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(297,750)</u>	<u>(389,915)</u>	<u>919,766</u>	<u>1,309,681</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	85,615	95,615	109,717	14,102
Transfers Out	(68,000)	(68,000)	(68,000)	-
Free Cash	280,135	362,300	362,300	-
Total Other Financing Sources (Uses)	<u>297,750</u>	<u>389,915</u>	<u>404,017</u>	<u>14,102</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,323,783</u>	<u>\$ 1,323,783</u>

**See Notes to the Required Supplementary Information**

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>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportionate share of net pension liability (asset) (%)	0.984993%	0.963958%	0.969880%
Town's proportionate share of net pension liability (asset) (\$)	12,706,598	11,580,175	11,500,606
Town's covered-employee payroll	4,458,982	4,287,483	4,032,304
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	284.97%	270.09%	285.21%
Plan fiduciary net position as a percentage of the pension liability	46.13%	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.

**See Notes to the Required Supplementary Information**

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

	<u>2016</u>	<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	\$ 1,009,146	\$ 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>(1,009,146)</u>	<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>	<u>\$ -</u>
Town's covered-employee payroll	4,458,982	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	22.63%	22.57%	22.50%								

**See Notes to the Required Supplementary Information**

Town of Pepperell, Massachusetts  
 Required Supplementary Information  
 Schedule of Funding Progress and Employer's Contributions - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2016

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.

**Schedule of Employer's Contributions**

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB 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
6/30/2015	\$797,884	33.9%	\$2,392,403
6/30/2016	\$833,778	35.2%	\$2,932,893

**See Notes to the Required Supplementary Information**

Town of Pepperell, Massachusetts  
 Required Supplementary Information  
 Valuation Details - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2016

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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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**See Notes to the Required Supplementary Information**

Town of Pepperell, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2016

(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 Town 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 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 Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town'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 \$14,000 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.

e. 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.

f. 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, 2016. 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, 2016, 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 October 31, 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  
October 31, 2016