

TOWN OF PEPPERELL, MASSACHUSETTS

Financial Statements

June 30, 2017

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Pepperell, Massachusetts
FINANCIAL STATEMENTS
 For the Year Ended June 30, 2017
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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, 2017 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, 2017 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 November 17, 2017, 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

November 17, 2017

**Town of Pepperell, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2017**

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, 2017.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Pepperell, Massachusetts's June 30, 2017 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 and deferred inflows at the close of the most recent fiscal year by \$27,544,389 (net position). The government's total net position decreased by (\$3,870,258). The governmental activities decreased by (\$2,270,604). The business-type activities decreased by (\$1,599,654). The reason the net position decreased so much during the current fiscal year relates to the significant increase in the Town's Net Pension Liability and the increase in the OPEB liability. The details relating to these two items can be seen in the Notes to the Financial Statements (Section III, (B) Liabilities, (f) – "Changes in the Government's Long-Term Liabilities for the year ended June 30, 2017").

The total revenues (including special items) for fiscal year 2017 was \$27,967,861, of which \$24,031,989 was from governmental activities, and \$3,935,872 from business-type activities.

The total cost of all Town services for fiscal year 2017 was \$31,615,300, of which \$26,225,351 was for governmental services, and \$5,389,949 of which was for business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,818,978 or 12% of total general fund expenditures.

The Town of Pepperell, Massachusetts's total long term debt decreased by (\$979,740) 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 6,227,775	\$ 6,625,892	\$ 5,915,653	\$ 6,780,445	\$ 12,143,428	\$ 13,406,337
Capital Assets	13,739,523	14,354,273	28,310,335	29,108,661	42,049,858	43,462,934
Total Assets	<u>19,967,298</u>	<u>20,980,165</u>	<u>34,225,988</u>	<u>35,889,106</u>	<u>54,193,286</u>	<u>56,869,271</u>
Deferred Outflows of Resources	2,840,472	690,830	774,236	181,781	3,614,708	872,611
Other Liabilities	570,343	565,570	1,249,300	967,842	1,819,643	1,533,412
Long Term Liabilities	16,751,838	13,456,699	11,555,364	11,337,124	28,307,202	24,793,823
Total Liabilities	<u>17,322,181</u>	<u>14,022,269</u>	<u>12,804,664</u>	<u>12,304,966</u>	<u>30,126,845</u>	<u>26,327,235</u>
Deferred Inflows of Resources	107,467	-	29,293	-	136,760	-
Net Position:						
Net Investment in Capital Assets	13,014,523	13,473,273	20,355,335	20,314,661	33,369,858	33,787,934
Restricted	1,016,420	942,512	2,915,445	3,179,427	3,931,865	4,121,939
Unrestricted	(8,652,821)	(6,767,059)	(1,104,513)	271,833	(9,757,334)	(6,495,226)
Total Net Position	<u>\$ 5,378,122</u>	<u>\$ 7,648,726</u>	<u>\$ 22,166,267</u>	<u>\$ 23,765,921</u>	<u>\$ 27,544,389</u>	<u>\$ 31,414,647</u>

The net position of the Town decreased by (\$3,870,258). The net position of the governmental activities decreased by (\$2,270,604) or more than 29.6% and the net position of the business-type activities decreased by (\$1,599,654) or 6.73%.

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,226,932	\$ 792,546	\$ 3,796,132	\$ 3,912,954	\$ 5,023,064	\$ 4,705,500
Operating Grants and Contributions	872,044	882,836	81,722	79,265	953,766	962,101
Capital Grants and Contributions	-	-	52,939	72,845	52,939	72,845
General Revenues:						
Property Taxes	18,813,115	18,220,925	-	-	18,813,115	18,220,925
Motor Vehicle and Other Excises	1,704,277	1,575,726	-	-	1,704,277	1,575,726
Intergovernmental Not Restricted to a Specific Program	1,530,685	1,543,501	-	-	1,530,685	1,543,501
Other	(115,064)	360,409	5,079	90,780	(109,985)	451,189
Total Revenues	<u>24,031,989</u>	<u>23,375,943</u>	<u>3,935,872</u>	<u>4,155,844</u>	<u>27,967,861</u>	<u>27,531,787</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Expenses						
General Government	1,330,779	1,214,041	-	-	1,330,779	1,214,041
Public Safety	3,078,676	2,977,189	-	-	3,078,676	2,977,189
Education	15,183,469	14,496,620	-	-	15,183,469	14,496,620
Highways and Public Works	2,298,642	1,669,993	-	-	2,298,642	1,669,993
Human Services	501,464	511,531	-	-	501,464	511,531
Culture and Recreation	642,739	607,720	-	-	642,739	607,720
Debt Service	21,363	10,088	-	-	21,363	10,088
Employee Benefits	3,314,587	2,302,248	-	-	3,314,587	2,302,248
Capital Outlay	53,632	110,083	-	-	53,632	110,083
Sewer	-	-	2,778,585	2,237,828	2,778,585	2,237,828
Water	-	-	2,231,319	1,601,728	2,231,319	1,601,728
Transfer Station	-	-	380,045	376,352	380,045	376,352
Total Expenses	<u>26,425,351</u>	<u>23,899,513</u>	<u>5,389,949</u>	<u>4,215,908</u>	<u>31,815,300</u>	<u>28,115,421</u>
Increase (Decrease) in Net Position						
Before Special Items and Transfers	(2,393,362)	(523,570)	(1,454,077)	(60,064)	(3,847,439)	(583,634)
Special Items and Transfers	122,758	97,417	(145,577)	(85,615)	(22,819)	11,802
Increase (Decrease) in Net Position	<u>\$ (2,270,604)</u>	<u>\$ (426,153)</u>	<u>\$ (1,599,654)</u>	<u>\$ (145,679)</u>	<u>\$ (3,870,258)</u>	<u>\$ (571,832)</u>

Governmental Activities

In fiscal year 2017, property taxes accounted for approximately 78% of the revenues. In fiscal year 2016, property taxes accounted for 78% 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 (\$232,215) less 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
2017	-	693,062	129,444	2,818,978	3,641,484

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 \$22,166,267.

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, 2017, amounts to \$42,049,858 (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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 6,986,943	\$ 7,278,881	\$ 1,361,944	\$ 1,361,944	\$ 8,348,887	\$ 8,640,825
Construction in Progress	-	-	296,881	114,266	296,881	114,266
Buildings	3,330,718	3,532,625	955,157	1,016,391	4,285,875	4,549,016
Improvements Other Than Buildings	83,563	93,932	21,897	30,657	105,460	124,589
Infrastructure	2,149,640	2,262,913	25,129,588	26,069,755	27,279,228	28,332,668
Equipment	284,008	187,897	57,191	73,847	341,199	261,744
Vehicles	904,651	998,025	487,677	441,801	1,392,328	1,439,826
Total	<u>\$ 13,739,523</u>	<u>\$ 14,354,273</u>	<u>\$ 28,310,335</u>	<u>\$ 29,108,661</u>	<u>\$ 42,049,858</u>	<u>\$ 43,462,934</u>

Debt

The Town had \$8,678,184 in bonds outstanding on June 30, 2017. This represents a (\$979,740) decrease.

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Governmental Activities			
General Obligation Bonds Payable	\$ 585,000	\$ 706,000	\$ (121,000)
Business-type Activities			
Sewer - Net Unamortized Premium	5,891,684	6,556,424	(664,740)
Water	2,201,500	2,395,500	(194,000)
Enterprise Bonds Payable	8,093,184	8,951,924	(858,740)
Total Debt	<u>\$ 8,678,184</u>	<u>\$ 9,657,924</u>	<u>\$ (979,740)</u>

Fiscal Year 2018 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 2018 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, 2017
(Continued on Page 12)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 4,753,196	\$ 4,588,505	\$ 9,341,701
Petty Cash	375	-	375
Receivables:			
Property Taxes	277,907	-	277,907
Tax Liens	165,417	-	165,417
Excises	266,219	-	266,219
User Charges	510,012	342,195	852,207
Other	300	-	300
Property Taxes Not Due	45,613	-	45,613
Intergovernmental	208,736	-	208,736
Liens	-	40,228	40,228
Special Assessment	-	17,741	17,741
Noncurrent:			
Special Assessments Not Due	-	926,984	926,984
Capital Assets:			
Assets Not Being Depreciated	6,986,943	1,658,825	8,645,768
Assets Being Depreciated, Net	6,752,580	26,651,510	33,404,090
Total Assets	<u>19,967,298</u>	<u>34,225,988</u>	<u>54,193,286</u>
Deferred Outflows of Resources			
Pension	2,840,472	774,236	3,614,708
Total Deferred Outflows of Resources	<u>2,840,472</u>	<u>774,236</u>	<u>3,614,708</u>
Liabilities			
Current:			
Warrants Payable	169,198	272,711	441,909
Accrued Salaries Payable	99,092	21,839	120,931
Employees' Withholding Payable	48,498	-	48,498
Landfill	7,800	-	7,800
Bond Anticipation Notes Payable	140,000	-	140,000
Accrued Interest	1,755	84,009	85,764
Bonds Payable	104,000	870,741	974,741
Noncurrent:			
Bonds Payable	481,000	7,222,443	7,703,443
Landfill	57,640	-	57,640
Compensated Absences	476,544	-	476,544
Net Pension Liability	12,995,061	3,542,102	16,537,163
Other Post Employment Benefit Obligations	2,741,593	790,819	3,532,412
Total Liabilities	<u>17,322,181</u>	<u>12,804,664</u>	<u>30,126,845</u>
Deferred Inflows of Resources			
Pension	107,467	29,293	136,760
Total Deferred Inflows of Resources	<u>107,467</u>	<u>29,293</u>	<u>136,760</u>

Town of Pepperell, Massachusetts
Statement of Net Position
June 30, 2017
(Continued from Page 11)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Net Position			
Net Investment in Capital Assets	13,014,523	20,355,335	33,369,858
Restricted for:			
Debt Service	-	2,915,445	2,915,445
Special Revenue	546,651	-	546,651
Perpetual Funds:			
Expendable	176,941	-	176,941
Nonexpendable	292,828	-	292,828
Unrestricted	<u>(8,652,821)</u>	<u>(1,104,513)</u>	<u>(9,757,334)</u>
Total Net Position	<u>\$ 5,378,122</u>	<u>\$ 22,166,267</u>	<u>\$ 27,544,389</u>

Town of Pepperell, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2017

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	\$ 1,330,779	\$ 200,889	\$ 155,627	\$ -	\$ (974,263)	\$ -	\$ (974,263)
Public Safety	3,078,676	855,936	114,874	-	(2,107,866)	-	(2,107,866)
Education	15,183,469	-	203	-	(15,183,266)	-	(15,183,266)
Highways and Public Works	2,298,642	16,618	420,762	-	(1,861,262)	-	(1,861,262)
Human Services	501,464	53,209	138,327	-	(309,928)	-	(309,928)
Culture and Recreation	642,739	100,280	42,251	-	(500,208)	-	(500,208)
Debt Service	21,363	-	-	-	(21,363)	-	(21,363)
Employee Benefits	3,314,587	-	-	-	(3,314,587)	-	(3,314,587)
Capital Outlay	53,632	-	-	-	(53,632)	-	(53,632)
Total Governmental Activities	26,425,351	1,226,932	872,044	-	(24,326,375)	-	(24,326,375)
<i>Business-Type Activities:</i>							
Sewer	2,778,585	2,031,899	75,007	52,939	-	(618,740)	(618,740)
Water	2,231,319	1,449,037	6,455	-	-	(775,827)	(775,827)
Transfer Station	380,045	315,196	260	-	-	(64,589)	(64,589)
Total Business-Type Activities	5,389,949	3,796,132	81,722	52,939	-	(1,459,156)	(1,459,156)
Total	\$ 31,815,300	\$ 5,023,064	\$ 953,766	\$ 52,939	(24,326,375)	(1,459,156)	(25,785,531)
<i>General Revenues:</i>							
Property Taxes					18,813,115	-	18,813,115
Motor Vehicle and Other Excise Taxes					1,704,277	-	1,704,277
Penalties and Interest on taxes					66,931	-	66,931
Other Taxes and Assessments					22,535	-	22,535
Intergovernmental					1,530,685	-	1,530,685
Interest and Investment Income					9,995	-	9,995
Other Revenue					4,873	5,079	9,952
<i>Special Items:</i>							
Gain (Loss) on Sale of Assets					(219,398)	(22,819)	(242,217)
Transfers In (Out)					122,758	(122,758)	-
Total General Revenues					22,055,771	(140,498)	21,915,273
Change in Net Position					(2,270,604)	(1,599,654)	(3,870,258)
<i>Net Position:</i>							
Beginning of the Year					7,648,726	23,765,921	31,414,647
End of the Year					\$ 5,378,122	\$ 22,166,267	\$ 27,544,389

Town of Pepperell, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets:			
Cash/Investments	\$ 3,686,382	\$ 1,066,814	\$ 4,753,196
Petty Cash	375	-	375
Receivables:			
Property Taxes	277,907	-	277,907
Tax Liens	165,417	-	165,417
Excises	266,219	-	266,219
User Charges	510,012	-	510,012
Other	300	-	300
Property Taxes Not Due	45,613	-	45,613
Intergovernmental	-	208,736	208,736
Total Assets	\$ 4,952,225	\$ 1,275,550	\$ 6,227,775
Liabilities:			
Warrants Payable	\$ 110,558	\$ 58,640	\$ 169,198
Accrued Salaries Payable	97,981	1,111	99,092
Employees' Withholding Payable	48,498	-	48,498
Bonds Anticipation Notes Payable	-	140,000	140,000
Total Liabilities	257,037	199,751	456,788
Deferred Inflows of Resources:			
Unavailable Revenues	1,053,704	199,379	1,253,083
Total Deferred Inflows of Resources	1,053,704	199,379	1,253,083
Fund Equity:			
Fund Balances:			
Nonspendable	-	292,828	292,828
Restricted	-	636,645	636,645
Committed	693,062	86,947	780,009
Assigned	129,444	-	129,444
Unassigned	2,818,978	(140,000)	2,678,978
Total Fund Balances	3,641,484	876,420	4,517,904
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,952,225	\$ 1,275,550	\$ 6,227,775

Town of Pepperell, Massachusetts
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Fiscal Year Ended June 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 18,786,378	\$ -	\$ 18,786,378
Tax Liens	52,005	-	52,005
Excises	1,678,383	-	1,678,383
Penalties and Interest	66,931	-	66,931
Licenses and Permits	239,717	-	239,717
Fees and Other Departmental	141,886	124,681	266,567
Intergovernmental	1,634,875	1,094,897	2,729,772
Charges for Services	551,574	-	551,574
Fines and Forfeits	21,580	-	21,580
Earnings on Investments	9,995	2,802	12,797
In Lieu of Taxes	22,535	-	22,535
Contributions	-	64,258	64,258
Miscellaneous	4,872	120,979	125,851
Total Revenues	<u>23,210,731</u>	<u>1,407,617</u>	<u>24,618,348</u>
<u>Expenditures:</u>			
General Government	1,101,874	171,294	1,273,168
Public Safety	2,760,068	84,139	2,844,207
Education	15,087,492	1,430	15,088,922
Highways and Public Works	1,288,570	828,599	2,117,169
Human Services	391,611	76,738	468,349
Culture and Recreation	498,788	103,009	601,797
Debt Service	142,721	-	142,721
Intergovernmental	33,038	-	33,038
Employee Benefits	2,015,658	-	2,015,658
Capital Outlay	279,384	-	279,384
Total Expenditures	<u>23,599,204</u>	<u>1,265,209</u>	<u>24,864,413</u>
Excess of Revenues Over (Under) Expenditures	<u>(388,473)</u>	<u>142,408</u>	<u>(246,065)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	192,758	36,500	229,258
Operating Transfers (Out)	<u>(36,500)</u>	<u>(70,000)</u>	<u>(106,500)</u>
Total Other Financing Sources (Uses)	<u>156,258</u>	<u>(33,500)</u>	<u>122,758</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(232,215)</u>	<u>108,908</u>	<u>(123,307)</u>
Fund Balance, Beginning	<u>3,873,699</u>	<u>767,512</u>	<u>4,641,211</u>
Fund Balance, Ending	<u>\$ 3,641,484</u>	<u>\$ 876,420</u>	<u>\$ 4,517,904</u>

Town of Pepperell, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 Fiscal Year Ended June 30, 2017

Total governmental fund balances	\$	4,517,904
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		13,739,523
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,253,083
Net deferred outflows of Resources of Pension are not financial resources and, therefore, are not reported in the funds.		2,840,472
Net deferred inflows of Resources of Pension are not financial users and, therefore, are not reported in the funds.		(107,467)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(585,000)
Accrued Interest on Bonds		(1,755)
Other Post Employment Benefit Obligations		(2,741,593)
Net Pension Liability		(12,995,061)
Landfill Accrued Liability		(65,440)
Compensated Absences		(476,544)
		(17,667,803)
Net position of governmental activities	\$	5,378,122

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, 2017

Net change in fund balances - total governmental funds	\$ (123,307)
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.	(325,352)
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.	(289,398)
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.	(296,961)
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.	121,000
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.	358
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.	<u>(1,356,944)</u>
Change in net position of governmental activities	<u><u>\$ (2,270,604)</u></u>

Town of Pepperell, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2017

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Assets				
Current:				
Cash and Cash Investments	\$ 3,549,572	\$ 850,334	\$ 188,599	\$ 4,588,505
Receivables, Net of Allowance for Uncollectibles:				
User Charges	212,878	129,317	-	342,195
Liens	27,684	12,544	-	40,228
Special Assessments	17,741	-	-	17,741
Noncurrent:				
Special Assessments Not Due	926,984	-	-	926,984
Assets Not Being Depreciated	292,048	1,010,874	355,903	1,658,825
Assets Being Depreciated, Net	17,250,164	9,186,347	214,999	26,651,510
Total Assets	<u>22,277,071</u>	<u>11,189,416</u>	<u>759,501</u>	<u>34,225,988</u>
Deferred Outflows of Resources				
Pension	385,388	304,466	84,382	774,236
Total Deferred Outflows of Resources	<u>385,388</u>	<u>304,466</u>	<u>84,382</u>	<u>774,236</u>
Liabilities				
Current:				
Warrants Payable	137,269	126,174	9,268	272,711
Accrued Wages Payable	11,636	8,218	1,985	21,839
Accrued Interest Payable	70,190	13,819	-	84,009
Bonds Payable	680,741	190,000	-	870,741
Noncurrent:				
Bonds Payable	5,210,943	2,011,500	-	7,222,443
Net Pension Liability	1,763,135	1,392,921	386,046	3,542,102
Other Post Employment Benefit Obligations	476,167	177,579	137,073	790,819
Total Liabilities	<u>8,350,081</u>	<u>3,920,211</u>	<u>534,372</u>	<u>12,804,664</u>
Deferred Inflows of Resources				
Pension	14,581	11,519	3,193	29,293
Total Deferred Inflows of Resources	<u>14,581</u>	<u>11,519</u>	<u>3,193</u>	<u>29,293</u>
Net Position				
Net Investment in Capital Assets	11,788,712	7,995,721	570,902	20,355,335
Restricted for:				
Debt Service	2,915,445	-	-	2,915,445
Unrestricted	(406,360)	(433,569)	(264,584)	(1,104,513)
Total Net Position	<u>\$ 14,297,797</u>	<u>\$ 7,562,152</u>	<u>\$ 306,318</u>	<u>\$ 22,166,267</u>

Town of Pepperell, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2017

	<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	\$ 2,031,899	\$ 1,449,037	\$ 315,196	\$ 3,796,132
Special Assessments	52,939	-	-	52,939
Other Revenues	1,635	3,444	-	5,079
	<u>2,086,473</u>	<u>1,452,481</u>	<u>315,196</u>	<u>3,854,150</u>
Total Operating Revenues				
Operating Expenditures:				
Personal Services	600,290	471,344	138,306	1,209,940
Nonpersonal Service	1,282,447	1,322,182	214,786	2,819,415
Depreciation	679,883	358,347	26,953	1,065,183
	<u>2,562,620</u>	<u>2,151,873</u>	<u>380,045</u>	<u>5,094,538</u>
Total Operating Expenditures				
Operating Income (Loss)	<u>(476,147)</u>	<u>(699,392)</u>	<u>(64,849)</u>	<u>(1,240,388)</u>
Nonoperating Revenues (Expenses):				
Gain (Loss) on Disposal of Equipment	-	(22,819)	-	(22,819)
Intergovernmental	22,877	-	-	22,877
Earnings on Investments	52,130	6,455	260	58,845
Interest on Debt	(215,965)	(79,446)	-	(295,411)
	<u>(140,958)</u>	<u>(95,810)</u>	<u>260</u>	<u>(236,508)</u>
Total Nonoperating Revenues (Expenses)				
Income (Loss) Before Contributions and Transfers	<u>(617,105)</u>	<u>(795,202)</u>	<u>(64,589)</u>	<u>(1,476,896)</u>
Operating Transfers Out	<u>(66,526)</u>	<u>(48,210)</u>	<u>(8,022)</u>	<u>(122,758)</u>
Change in Net Position	<u>(683,631)</u>	<u>(843,412)</u>	<u>(72,611)</u>	<u>(1,599,654)</u>
Total Net Position July 1, 2016	<u>14,981,428</u>	<u>8,405,564</u>	<u>378,929</u>	<u>23,765,921</u>
Total Net Position June 30, 2017	<u>\$ 14,297,797</u>	<u>\$ 7,562,152</u>	<u>\$ 306,318</u>	<u>\$ 22,166,267</u>

Town of Pepperell, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2017

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Transfer Station Enterprise</u>	
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 2,393,169	\$ 1,581,231	\$ 315,196	\$ 4,289,596
Payments to Employees	(596,712)	(469,927)	(137,741)	(1,204,380)
Payments to Vendors	(862,437)	(999,504)	(158,945)	(2,020,886)
Net Cash Flows Provided (Used) by Operating Activities	<u>934,020</u>	<u>111,800</u>	<u>18,510</u>	<u>1,064,330</u>
Cash Flows from Non Capital Related Financing Activities:				
Intergovernmental Revenues	-	(26)	-	(26)
Transfer from (to) Other Funds	(66,526)	(48,210)	(8,022)	(122,758)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(66,526)</u>	<u>(48,236)</u>	<u>(8,022)</u>	<u>(122,784)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(197,112)	(92,746)	-	(289,858)
Miscellaneous Revenues	-	182	-	182
Principal Payments on Notes and Bonds	(644,999)	(194,000)	-	(838,999)
Interest Expense	(185,780)	(80,501)	-	(266,281)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(1,027,891)</u>	<u>(367,065)</u>	<u>-</u>	<u>(1,394,956)</u>
Cash Flows from Investing Activities:				
Earnings on Investments	17,349	6,455	260	24,064
Net Cash Flows Provided (Used) by Investing Activities	<u>17,349</u>	<u>6,455</u>	<u>260</u>	<u>24,064</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(143,048)	(297,046)	10,748	(429,346)
Cash and Cash Equivalents, July 1, 2016	<u>3,692,620</u>	<u>1,147,380</u>	<u>177,851</u>	<u>5,017,851</u>
Cash and Cash Equivalents, June 30, 2017	<u>\$ 3,549,572</u>	<u>\$ 850,334</u>	<u>\$ 188,599</u>	<u>\$ 4,588,505</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (476,147)	\$ (699,392)	\$ (64,849)	\$ (1,240,388)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	679,883	358,347	26,953	1,065,183
(Increase) Decrease in Assets/Deferred Outflows of Resources				
Accounts Receivable - Customer	306,696	128,750	-	435,446
Deferred Outflows of Resources - Pensions	(295,405)	(232,385)	(64,665)	(592,455)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources				
Warrants and Accounts Payable	228,530	166,574	40,294	435,398
Net Pension Liability	475,882	378,387	77,584	931,853
Deferred Inflows of Resources - Pensions	14,581	11,519	3,193	29,293
Net Cash Provided by Operating Activities	<u>\$ 934,020</u>	<u>\$ 111,800</u>	<u>\$ 18,510</u>	<u>\$ 1,064,330</u>

Town of Pepperell, Massachusetts
 Fiduciary Funds
 Statement of Net Position
 June 30, 2017

	<u>OPEB Trust</u>	<u>Agency Funds</u>
Assets		
Cash and Cash Investments	\$ 201,824	\$ 160,457
	<hr/>	<hr/>
Total Assets	201,824	160,457
	<hr/>	<hr/>
Liabilities		
Current:		
Accounts Payable	-	4,171
Due to Other Government	-	4,150
Unclaimed Checks	-	31,667
Guarantee Deposits	-	120,469
	<hr/>	<hr/>
Total Liabilities	-	160,457
	<hr/>	<hr/>
Net Position		
Other Post Employment Benefits Trust	201,824	-
	<hr/>	<hr/>
Total Net Position	\$ 201,824	\$ -
	<hr/> <hr/>	<hr/> <hr/>

Town of Pepperell, Massachusetts
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position - OPEB Trust
 Fiscal Year Ended June 30, 2017

Additions	
Interest, Dividends, and Other	\$ 1,824
Employer Contributions	<u>504,405</u>
Total Additions	<u>506,229</u>
Deductions	
Benefits	<u>304,405</u>
Change in Net Position	201,824
Net Position:	
Beginning of the Year	<u>-</u>
Ending of the Year	<u><u>\$ 201,824</u></u>

Town of Pepperell, Massachusetts
Notes to the Financial Statements
June 30, 2017

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Pepperell as of June 30, 2017. 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, 2017 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 2017. The budget amounts include special Town meeting votes applicable to fiscal year 2017 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	\$ 23,212,218
Adjustments:	
Sixty Day Property Tax Accrual - Net	(234)
GASB 54 - Stabilization Interest Earnings	(1,253)
As Reported GAAP Statement	<u>\$ 23,210,731</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 23,748,763
Adjustments:	
July 1, 2016 Encumbrances	89,477
June 30, 2017 Encumbrances	(439,036)
Contribution to OPEB Trust is a Transfer in Using Budget Basis, but, an Expenditure Using GAAP Basis	<u>200,000</u>
As Reported GAAP Statement	<u>\$ 23,599,204</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>	Non Major <u>Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
General Government	\$ -	\$ 151	\$ 151
Education	-	45,392	45,392
Public Works	-	169,847	169,847
Culture and Recreation	-	77,438	77,438
Total Nonspendable	<u>-</u>	<u>292,828</u>	<u>292,828</u>
Restricted for:			
General Government	-	45,500	45,500
Public Safety	-	39,026	39,026
Education	-	24,443	24,443
Public Works	-	27,205	27,205
Human Services	-	42,267	42,267
Culture and Recreation	-	458,204	458,204
Total Restricted	<u>-</u>	<u>636,645</u>	<u>636,645</u>
Committed to:			
General Government	20,000	14,837	34,837
Public Safety	289,592	-	289,592
Public Works	-	46,750	46,750
Culture and Recreation	-	25,360	25,360
Free Cash and Other Available Funds for FY18 Budget	383,470	-	383,470
Total Committed	<u>693,062</u>	<u>86,947</u>	<u>780,009</u>
Assigned to:			
General Government	22,267	-	22,267
Public Safety	550	-	550
Public Works	4,500	-	4,500
Culture and Recreation	604	-	604
Capital Outlay and Other	101,523	-	101,523
Total Assigned	<u>129,444</u>	<u>-</u>	<u>129,444</u>
Unassigned	<u>2,818,978</u>	<u>(140,000)</u>	<u>2,678,978</u>
Total Fund Balances	<u>\$ 3,641,484</u>	<u>\$ 876,420</u>	<u>\$ 4,517,904</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or Townshall 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 \$667,251. 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, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Land	\$ 7,278,881	\$ -	\$ (291,938)	\$ 6,986,943
Total Capital Assets Not Being Depreciated	<u>7,278,881</u>	<u>-</u>	<u>(291,938)</u>	<u>6,986,943</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	1,071,165	129,764	(138,100)	1,062,829
Vehicles	3,480,172	92,188	(57,255)	3,515,105
Total Capital Assets Being Depreciated	<u>25,563,436</u>	<u>221,952</u>	<u>(195,355)</u>	<u>25,590,033</u>
Less Accumulated Depreciation for:				
Buildings	(5,545,509)	(201,907)	-	(5,747,416)
Improvements Other Than Buildings	(374,117)	(10,373)	-	(384,490)
Infrastructure	(9,203,003)	(113,269)	-	(9,316,272)
Equipment	(883,268)	(33,653)	138,100	(778,821)
Vehicles	(2,482,147)	(184,102)	55,795	(2,610,454)
Total Accumulated Depreciation	<u>(18,488,044)</u>	<u>(543,304)</u>	<u>193,895</u>	<u>(18,837,453)</u>
Capital Assets Being Depreciated, Net	<u>7,075,392</u>	<u>(321,352)</u>	<u>(1,460)</u>	<u>6,752,580</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,354,273</u>	<u>\$ (321,352)</u>	<u>\$ (293,398)</u>	<u>\$ 13,739,523</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 8,169
Public Safety	183,852
Education	94,547
Highways and Public Works	177,833
Human Services	33,933
Culture and Recreation	44,970
Total Governmental Activities Depreciation Expense	<u>\$ 543,304</u>

(I) Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 1,361,944	\$ -	\$ -	\$ 1,361,944
Construction in Progress	114,266	210,116	(27,501)	296,881
Total Capital Assets Not Being Depreciated	<u>1,476,210</u>	<u>210,116</u>	<u>(27,501)</u>	<u>1,658,825</u>
Assets Being Depreciated:				
Buildings	2,449,362	-	-	2,449,362
Improvements Other Than Buildings	285,114	-	-	285,114
Infrastructure	45,980,949	-	-	45,980,949
Equipment	478,568	-	-	478,568
Vehicles	1,169,551	84,242	(25,471)	1,228,322
Total Capital Assets Being Depreciated	<u>50,363,544</u>	<u>84,242</u>	<u>(25,471)</u>	<u>50,422,315</u>
Less Accumulated Depreciation for:				
Buildings	(1,432,971)	(61,234)	-	(1,494,205)
Improvements Other Than Buildings	(254,457)	(8,760)	-	(263,217)
Infrastructure	(19,911,194)	(940,167)	-	(20,851,361)
Equipment	(404,721)	(16,656)	-	(421,377)
Vehicles	(727,750)	(38,366)	25,471	(740,645)
Total Accumulated Depreciation	<u>(22,731,093)</u>	<u>(1,065,183)</u>	<u>25,471</u>	<u>(23,770,805)</u>
Capital Assets Being Depreciated, Net	<u>27,632,451</u>	<u>(980,941)</u>	<u>-</u>	<u>26,651,510</u>
Business-Type Activities Capital Assets, Net	<u>\$ 29,108,661</u>	<u>\$ (770,825)</u>	<u>\$ (27,501)</u>	<u>\$ 28,310,335</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Sewer	\$ 679,883
Water	358,347
Transfer Station	26,953
Total Business-type Activities Depreciation Expense	<u>\$ 1,065,183</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. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, \$3,555,838 of the Town's bank balance of \$8,328,626 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 3,555,838

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, 2017, 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	\$ 363,428	\$ 60,083	\$ 303,345	\$ -
U. S. Government Obligations	371,343	-	371,343	-
Corporation Notes and Bonds	244,266	124,924	119,342	-
Total	<u>\$ 979,036</u>	<u>\$ 185,007</u>	<u>\$ 794,029</u>	<u>\$ -</u>
Other Investments:				
Money Market Funds	\$ 183,123			
Mutual Funds	68,643			
Equities	144,702			
Mass. Municipal Depository Trust	18,870			
Total Other Investment	<u>415,337</u>			
Total Investments	<u>\$ 1,394,374</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, 2017:

	<u>Fair Value Measurements Using</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
Investment by Fair Value Level:				
U. S. Treasuries	\$ 371,343	\$ 371,343	\$ -	\$ -
Corporate Bonds	244,266	-	244,266	-
Mutual Funds	68,643	68,643	-	-
Money Market Funds	183,123	-	-	-
Common Stock	144,702	144,702	-	-
Total Assets in the Fair Value Hierarchy	<u>1,012,076</u>	<u>584,688</u>	<u>244,266</u>	<u>-</u>
Certificates of Deposit	363,428			
MMDT	<u>18,870</u>			
Total Investments	<u>\$ 1,394,374</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	\$ 192,758	\$ (36,500)	\$ 156,258
Non-major Governmental	36,500	(70,000)	(33,500)
Enterprise - Business Type	-	(122,758)	(122,758)
Total	<u>\$ 229,258</u>	<u>\$ (229,258)</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 <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

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

Retirement Benefits

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

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

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

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

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

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

Retirement Benefits - Superannuation

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

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

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

Death Benefits

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

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

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2017 was 24.40% 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 \$1,074,825 for the year ending June 30, 2017.

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

At June 30, 2017, the Town reported a liability of \$16,537,163 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, 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, 2016, the Town's proportion was 1.167156%.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,225,227. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 74,478	\$ -
Change in assumptions	901,051	-
Net differences between projected and actual earnings on pension plan investments	686,588	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,952,591	136,759
Contributions subsequent to the measurement date	-	-
	<u>\$ 3,614,708</u>	<u>\$ 136,759</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
2018	\$	935,213
2019		935,213
2020		923,379
2021		684,144

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date	January 1, 2016			
Actuarial Cost Method	Entry age normal cost method			
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2018 through fiscal year 2024, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.			
Remaining Amortization Period	As of July 1, 2016, 3 years remaining for the 2002 ERI liability; 4 years remaining for the 2003 ERI liability; 6 years remaining for the 2010 ERI liability and 19 years for the remaining unfunded liability.			
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 20% of market value.			
Investment Rate of Return/Discount Rate	7.75% net of pension plan investment expense, including inflation (7.875% in previous valuation)			
Inflation Rate	3.50% (4.0% in previous valuation)			
Projected Salary Increases (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%
Cost of Living Adjustments	3.00% of first \$14,000			
Rates of Retirement	Varies based upon age for general employees, police and fire employees.			
Rates of Disability	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 generationally from 2009 with Scale BB2D (previously, RP- Employee Mortality Table projected 22 years with scale AA)			
Health Retiree	RP-2000 Health Annuitant Mortality Table projected generationally from 2009 with Scale BB2D (previously, RP- Healthy Annuitant Mortality Table projected 17 years with scale AA)			
Disabled	RP-2000 Health Annuitant Mortality Table projected generationally from 2015 using Scale BB2D (previously Healthy Annuitant Mortality Table set forward 3 years projected 17 years with Scale AA)			

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	19.50%	7.50%
International Developed Markets Equity	16.80%	7.83%
Emerging Markets Equity	6.90%	9.61%
Core Fixed Income	12.30%	3.75%
Value Added Fixed Income	8.30%	7.26%
Private Equity	11.10%	9.50%
Real Estate	10.00%	6.50%
Timber/Natural Resources	3.60%	6.00%
Hedge Funds	9.00%	6.48%
Liquidating Portfolios	0.40%	6.48%
Portfolio Completion Strategies	1.10%	6.48%
Overlay	1.00%	6.48%
	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2016 (net of investment expenses) was 7.35%. (0.61% for December 31, 2015). 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 7.75% (7.875 % 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 Town's share of the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Town's proportionate share of the Net Pension Liability	\$ 19,970,121	\$ 16,537,163	\$ 13,635,837

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 <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf>

(M) Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which became effective for the current reporting period. GASB Statement #74 relates to reporting requirements of the Town's OPEB Trust fund. The net other post-employment benefits **liability** reported in the GASB Statement #74 disclosures differs from the net other post-employment benefits **obligation** amount reported in the Town's statement of net position. The reporting requirements related to the Town's statement of net position are currently guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the Town's net other post-employment benefits liability is being "phased in" over a thirty year period. Concurrent with GASB Statement #74, the GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement #75 (effective for the June 30, 2018 reporting period) which eliminates the thirty year phase in of the other post-employment benefits liability. Therefore, the net other post employment liability reported in the Town's June 30, 2018 statement of net position will agree with the GASB Statement #74 disclosures related to the Town's OPEB Trust.

Plan Description.

Plan Administration: The Town administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the Town. Management of the plan is vested in the Town.

Plan Membership: At June 30, 2017, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	62
Active Plan Members	<u>73</u>
Total	135

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health insurance premiums. Benefits are provided through a third party insurer.

Contributions. The Town pays 70% of the premiums for health insurance 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.

Investments

Investment Policy: When fully implemented, the plan’s policy in regard to the allocation of invested assets is approved and may be amended by the Town. The policy will pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2017:

	<u>Target Allocation</u>
Domestic Equity - Large Cap	0.00%
Domestic Equity - Small/Mid Cap	0.00%
International Equity - Developed Market	0.00%
International Equity - Emerging Market	0.00%
Domestic Fixed Income	0.00%
International Fixed Income	0.00%
Alternatives	0.00%
Real Estate	0.00%
Cash	100.00%
	<u>100.00%</u>

Concentrations

The OPEB plan did not hold investments in any one organization that represent 5 percent or more of the OPEB plan's fiduciary net position.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the Net OPEB liability of the Town at June 30, 2017 were as follows:

Total OPEB Liability	\$11,440,664
Plan Fiduciary Net Position	(201,713)
Net OPEB Liability	<u>\$11,238,951</u>

Plan fiduciary net position as a percentage of the total OPEB liability	1.76%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% as of June 30, 2017 and for future period
Salary Increases	3.00% annually as of June 30, 2017 and for future period
Investment Rate of Return	2.75%, net of OPEB plan investment expense, including inflation
Mortality Rates were based on the tables noted below:	
Healthy:	
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

Changes in Assumption:

The actuarial cost method was changed from projected unit credit method to the entry age normal method. In addition, the investment rate of return was changed from 4.5% to 3.13%.

The long-term expected rate of return on OPEB 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 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized in the table below:

	Long Term Expected <u>Rate of Return</u>
Domestic Equity - Large Cap	4.00%
Domestic Equity - Small/Mid Cap	6.00%
International Equity - Developed Market	4.50%
International Equity - Emerging Market	7.00%
Domestic Fixed Income	2.00%
International Fixed Income	3.00%
Alternatives	6.50%
Real Estate	6.25%
Cash	0.00%

Discount rate: The discount rate used to measure the total OPEB liability was 3.25% (7.875% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that Town contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore a blended long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.25%) or 1-percentage-point higher (4.25%) than the current discount rate:

	1% Decrease <u>2.25%</u>	Discount Rate <u>3.25%</u>	1% Increase <u>4.25%</u>
Net OPEB Liability (asset)	\$ 13,450,393	\$ 11,238,951	\$ 9,659,800

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1-percentage-point higher (6.0% decreasing to 4%) than the current healthcare cost trend rates:

	1% Decrease <u>4.00%</u>	Healthcare Cost Trend <u>5.00%</u>	1% Increase <u>6.00%</u>
Net OPEB Liability (asset)	\$ 8,892,150	\$ 11,238,951	\$ 14,232,015

Employer Reporting (GASB Statement #45)

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, 2017, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$610,164
Interest on Net OPEB Obligation	102,652
Adjustment to Annual Required Contribution	(154,072)
Other Adjustments	345,180
Annual OPEB Cost (Expense)	<u>\$903,924</u>
Contributions Made	<u>(304,405)</u>
Increase in Net OPEB Obligation	<u>599,519</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>2,932,893</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$3,532,412</u></u>

The Town’s annual required contribution, the percentage of the annual required contributions 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>Required</u> <u>Contribution (ARC)</u>	<u>Percentage of</u> <u>ARC</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2015	\$577,692	47.0%	\$2,392,403
6/30/2016	\$592,508	49.0%	\$2,932,893
6/30/2017	\$610,164	50.0%	\$3,532,412

Funded Status and Funding Progress. As of July 1, 2016, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$10,596,266 and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$10,596,266. 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 \$5,068,706 and the UAAL as a percentage of covered payroll was 209.1%.

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.

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, 2016, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 3.25% investment rate of return (4.0% 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 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		
2017	\$ 201,414	
2016	49,802	
2015	13,498	
2014	795	
Total Real Estate Taxes	<u> </u>	<u>\$ 265,509</u>

(A) Accounts Receivable (Continued)

Personal Property Taxes

2017	\$ 3,362	
2016	3,058	
2015	2,737	
2014	1,888	
2013	375	
2012	345	
2011	323	
2010	310	
	<u> </u>	
Total Personal Property Taxes		<u>12,398</u>

Total Property Taxes Receivable \$ 277,907

Tax Liens \$ 165,417

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2017	\$ 175,658	
2016	22,878	
2015	20,897	
2014	6,784	
2013	15,259	
2012	6,835	
2011	4,392	
2010	4,624	
2009	5,285	
2008	3,607	
	<u> </u>	
Tax Excise Receivable		<u>\$ 266,219</u>

Charges for Services:

Ambulance \$ 510,012

Other:

Fines \$ 300

Property Taxes Not Due - Clause 41A \$ 45,613

Intergovernmental:

Commonwealth - Highway Funds \$ 199,379

Other Federal and State Grants 9,357

Total Intergovernmental \$ 208,736

(A) Accounts Receivable (Continued)

Business Type Activities:

User Charges:

Sewer	\$212,878	
Water	<u>129,317</u>	
Total User Charges		<u><u>\$342,195</u></u>

Liens:

Sewer Liens	\$ 27,684	
Water Liens	<u>12,544</u>	
Total Liens		<u><u>\$ 40,228</u></u>

Special Assessments:

Current:

Betterments		<u><u>\$ 17,741</u></u>
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Noncurrent:

Sewer Betterments Not Yet Due		<u><u>\$ 926,984</u></u>
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(B) Liabilities

i Bond Anticipation Notes Payable

(a) The Town has various bond anticipation notes outstanding as of June 30, 2017 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	\$ 175,000	\$ 140,000	\$ 175,000	\$ 140,000	8/18/2017	0.85%
Total	<u>\$ 175,000</u>	<u>\$ 140,000</u>	<u>\$ 175,000</u>	<u>\$ 140,000</u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2017, bear interest at various rates.

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2017:

<u>Governmental 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, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
Senior Center	4/11/2012	\$ 612,500	2.03%	5/15/2022	\$ 347,000	\$ -	\$ (63,000)	\$ 284,000
Park and Recreation Building	4/11/2012	41,200	2.06%	5/15/2022	24,000	-	(4,000)	20,000
Land Acquisition: Pepperell Springs	8/17/2015	364,000	2.08%	8/17/2024	322,000	-	(41,000)	281,000
Computer Hardware	8/17/2015	8,000	2.08%	10/1/2017	4,000	-	(4,000)	-
Radio System of Fire Department	8/17/2015	18,000	2.08%	10/1/2017	9,000	-	(9,000)	-
					<u>\$ 706,000</u>	<u>\$ -</u>	<u>\$ (121,000)</u>	<u>\$ 585,000</u>
Total Governmental Activities					<u>\$ 706,000</u>	<u>\$ -</u>	<u>\$ (121,000)</u>	<u>\$ 585,000</u>

<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, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
Water Main (Lowell Road)	8/17/2015	225,000	2.08%	10/1/2024	\$ 199,000	\$ -	\$ (25,000)	\$ 174,000
Water Well- Bemis St Imp	8/17/2015	291,000	2.08%	10/1/2028	291,000	-	(25,000)	266,000
Water Well- Jersey St Imp	8/17/2015	77,000	2.08%	10/1/2028	77,000	-	(7,000)	70,000
Water Wells- Imp's	8/17/2015	146,000	2.08%	10/1/2028	146,000	-	(13,000)	133,000
Water Main- (Donut Holes)	8/17/2015	36,000	2.08%	10/1/2028	36,000	-	(4,000)	32,000
Water Building - Renovate	8/17/2015	216,000	2.08%	10/1/2028	216,000	-	(19,000)	197,000
Water Well- Nashua/Alves	8/17/2015	117,500	2.08%	10/1/2028	117,500	-	(10,000)	107,500
Water Main	7/15/2010	217,500	3.61%	7/15/2030	156,000	-	(12,000)	144,000
Water Main Upgrade	7/15/2010	125,000	3.63%	7/15/2030	90,000	-	(6,000)	84,000
Water Well - Nashua Road	7/15/2010	1,186,600	3.64%	7/15/2030	886,000	-	(60,000)	826,000
Water Engineering Services	7/15/2010	250,000	3.63%	7/15/2030	181,000	-	(13,000)	168,000
Sewer: Extension- Jewett St	4/11/2012	132,000	2.03%	5/15/2022	76,000	-	(14,000)	62,000
Sewer: Extension- Lowell Rd	4/11/2012	139,000	1.91%	5/15/2022	75,000	-	(16,000)	59,000
Sewer: Extension- Park St	4/1/2012	30,300	2.07%	5/15/2022	18,000	-	(3,000)	15,000
Sewer: WWTP - Plant Upgrade- Mata Loan	2/1/2005	4,724,930	2.00%	2/1/2025	2,545,000	-	(245,000)	2,300,000
Sewer: Extension- Park St- Finish	8/17/2015	122,000	2.08%	10/1/2024	108,000	-	(14,000)	94,000
Sewer: WWTP - Design/Plans	8/17/2015	156,000	2.08%	10/1/2024	138,000	-	(18,000)	120,000
Sewer: Extension- Mason/Townsend	8/17/2015	277,000	2.08%	10/1/2028	277,000	-	(22,000)	255,000
Sewer: Extension- Donut Holes	8/17/2015	292,500	2.08%	10/1/2028	292,500	-	(25,000)	267,500
Sewer: WWTP- UV Enclosure	8/17/2015	42,000	2.08%	10/1/2028	42,000	-	(4,000)	38,000
Sewer: Extension - Brookline Village	7/15/2010	1,749,000	3.64%	7/15/2030	1,306,000	-	(88,000)	1,218,000
Sewer: Extension - BHMN	7/15/2010	1,322,000	3.63%	7/15/2030	985,000	-	(67,000)	918,000
Sewer Refunding debt	7/15/2010	915,000	2.75%	7/15/2018	360,000	-	(115,000)	245,000
Sewer: Engineering Services	7/15/2010	98,150	3.56%	7/15/1930	66,000	-	(6,000)	60,000
Sewer: Engineering Services	7/15/2010	150,000	3.61%	7/15/2030	110,000	-	(8,000)	102,000
					<u>\$8,794,000</u>	<u>\$ -</u>	<u>\$ (839,000)</u>	<u>\$ 7,955,000</u>
Total Business Type Activities					<u>\$8,794,000</u>	<u>\$ -</u>	<u>\$ (839,000)</u>	<u>\$ 7,955,000</u>

(B) Liabilities (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	95,000	4,030	750,000	172,114
2023 - 2027	79,000	1,570	2,901,000	455,467
2028 - 2031	<u>0</u>	<u>0</u>	<u>1,110,000</u>	<u>83,526</u>
	<u>\$585,000</u>	<u>\$55,267</u>	<u>\$7,955,000</u>	<u>\$1,711,612</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>
2018	\$120,787	\$134,647	\$13,860
2019	<u>127,026</u>	<u>138,307</u>	<u>11,281</u>
	<u>\$247,813</u>	<u>\$272,954</u>	<u>\$25,141</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>
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>\$476,438</u>	<u>\$526,777</u>	<u>\$50,339</u>

(B) Liabilities (Continued)

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>
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>\$2,314,963</u>	<u>\$2,527,532</u>	<u>\$212,569</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>
2018	\$52,275
2019	48,912
2020	45,450
2021	41,857
2022	38,102
2023-2025	<u>84,391</u>
Total Subsidies	<u>\$310,987</u>

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2017, 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>

(B) Liabilities (Continued)

(f) Changes in the Government's Long-Term Liabilities for the Year ended June 30, 2017 are as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Bonds Payable	\$ 706,000	\$ -	\$ (121,000)	\$ 585,000	\$ 104,000
Landfill Liability	73,240	-	(7,800)	65,440	7,800
Compensated Absences	423,774	137,525	(84,755)	476,544	-
Net Pension Liability	10,096,349	3,957,044	(1,058,332)	12,995,061	-
Other Post Employment Benefits	<u>2,299,201</u>	<u>727,284</u>	<u>(284,892)</u>	<u>2,741,593</u>	<u>-</u>
Total Governmental Activities	<u>\$ 13,598,564</u>	<u>\$ 4,821,853</u>	<u>\$ (1,556,779)</u>	<u>\$ 16,863,638</u>	<u>\$ 111,800</u>
Business Type Activities:					
Bonds Payable	\$ 8,951,925	\$ -	\$ (858,740)	\$ 8,093,185	\$ 870,741
Net Pension Liability	2,610,249	1,191,362	(259,509)	3,542,102	-
Other Post Employment Benefits	<u>633,692</u>	<u>176,640</u>	<u>(19,513)</u>	<u>790,819</u>	<u>-</u>
Total Business Type Activities	<u>\$ 12,195,866</u>	<u>\$ 1,368,002</u>	<u>\$ (1,137,762)</u>	<u>\$ 12,426,106</u>	<u>\$ 870,741</u>

IV. Subsequent Year Authorizations

The Town (including the water, transfer station and sewer enterprise funds) adopted a fiscal 2018 operating and capital budget of \$29,168,883. Fiscal 2018 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	\$ 24,674,204
Enterprise Fund Revenues and Available Funds	4,111,209
Committed Fund Balance: General Fund - Other	<u>383,470</u>
Total	<u>\$ 29,168,883</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 \$439,036.

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. Implementation of New GASB Pronouncements

During fiscal year 2017, the following GASB pronouncements were implemented:

- 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 implementation of this pronouncement did not impact the financial statements.
- 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 implementation of this pronouncement required new disclosures and required supplementary information schedules related to the District's Other Post-Employment Benefits Trust Fund.
- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- 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 implementation of this pronouncement did not impact the financial statements.
- 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 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal years beginning after December 15, 2016.
- 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.
- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in fiscal years beginning after June 15, 2017.

- The GASB issued Statement No. 87, Leases which is required to be implemented in fiscal years beginning after December 15, 2019.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #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, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Property Taxes	\$ 18,749,372	\$ 18,749,372	\$ 18,816,573	\$ 67,201
Tax Liens	-	-	52,005	52,005
Excises	1,581,208	1,581,208	1,648,421	67,213
Penalties and Interest	50,000	50,000	66,931	16,931
Licenses and Permits	230,000	230,000	239,717	9,717
Fees and Other Departmental	142,000	142,000	141,886	(114)
Intergovernmental	1,647,702	1,647,702	1,634,875	(12,827)
Charges for Services	324,472	324,472	551,574	227,102
Fines and Forfeits	26,000	26,000	21,580	(4,420)
Earnings on Investments	14,000	14,000	11,249	(2,751)
In Lieu of Taxes	20,000	20,000	22,535	2,535
Miscellaneous	-	-	4,872	4,872
Total Revenues	<u>22,784,754</u>	<u>22,784,754</u>	<u>23,212,218</u>	<u>427,464</u>
Expenditures				
Current:				
General Government	1,111,583	1,157,665	1,113,105	44,560
Public Safety	2,793,329	3,106,805	3,046,690	60,115
Education	15,145,824	15,087,492	15,087,492	-
Highway and Public Works	1,074,971	1,271,968	1,240,657	31,311
Health and Human Services	410,213	413,482	391,611	21,871
Culture and Recreation	510,051	510,776	498,948	11,828
Debt Service	143,413	143,413	142,721	692
Intergovernmental	31,018	31,018	33,038	(2,020)
Employee Benefits	1,744,187	1,825,511	1,815,658	9,853
Capital Outlay	311,770	378,843	378,843	-
Total Expenditures	<u>23,276,359</u>	<u>23,926,973</u>	<u>23,748,763</u>	<u>178,210</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(491,605)</u>	<u>(1,142,219)</u>	<u>(536,545)</u>	<u>605,674</u>
Other Financing Sources (Uses):				
Transfers In	122,758	192,758	192,758	-
Transfers Out	(36,500)	(236,500)	(236,500)	-
Other Available Funds	-	158,805	158,805	-
Free Cash	405,347	1,027,156	1,027,156	-
Total Other Financing Sources (Uses)	<u>491,605</u>	<u>1,142,219</u>	<u>1,142,219</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 605,674</u>	<u>\$ 605,674</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>2017</u>	<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>
Town's proportionate share of net pension liability (asset) (%)	1.167156%	0.984993%	0.963958%	0.969880%	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"</i>					
Town's proportionate share of net pension liability (asset) (\$)	16,537,163	12,706,598	11,580,175	11,500,606						
Town's covered-employee payroll	4,404,857	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	375.43%	284.97%	270.09%	285.21%						
Plan fiduciary net position as a percentage of the pension liability	45.49%	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>2017</u>	<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>
Contractually required contribution	\$ 1,074,825	\$ 1,009,146	\$ 967,605	\$ 907,371	\$ 815,038	\$ 778,181	\$ 687,784	\$ 658,167	\$ 679,298	\$ 609,696
Contributions in relation to the contractually required contribution	<u>(1,074,825)</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	4,404,857	4,458,982	4,287,483	4,032,304	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"</i>					
Contributions as a percentage of covered-employee payroll	24.40%	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, 2017

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%
7/1/16	\$0	\$10,596,266	\$10,596,266	0%	\$5,068,706	209.1%

Schedule of Employer's Contributions

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2015	\$577,692	47.0%	\$2,392,403
6/30/2016	\$592,508	49.0%	\$2,932,893
6/30/2017	\$610,164	50.0%	\$3,532,412

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, 2017

Valuation Date	July 1, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Dollar Amount over 30 years
Remaining Amortization Period	22 Years at July 1, 2016
Asset Valuation Method	Market Value of the Plan's Assets

Actuarial Assumptions:

Discount Rate	3.5% per annum (previously 4.0%)
Medical/Drug Cost Trend Rate	5.0% in year 2014 and thereafter
Plan Membership:	
Current retirees, beneficiaries, and dependents	62
Current active members	<u>73</u>
Total	<u>135</u>

See Notes to the Required Supplementary Information

Town of Pepperell, Massachusetts
Required Supplementary Information
Schedule of Changes In the Net OPEB Liability and Related Ratios
June 30, 2017
Last 10 Fiscal Year

	<u>2017</u>	<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>
Total OPEB liability	\$ 11,440,664									
Service cost	377,220									
Interest	364,947									
Changes of benefit terms	-									
Difference between expected and actual experience	-									
Changes in assumptions	-									
Benefit payments	(304,405)									
Net change in total OPEB liability	437,762									
Total OPEB liability - beginning	11,002,902									
Total OPEB liability - ending (a)	\$ 11,440,664									
Plan Fiduciary net position										
Contributions - employer	\$ 200,000									
Net investment income	1,713									
Benefit payments	-									
Administrative expense	-									
Net change in plan fiduciary net position	201,713									
Plan fiduciary net position - beginning	-									
Plan fiduciary net position - ending (b)	\$ 201,713									
Town's net OPEB liability - ending (a) - (b)	\$ 11,238,951									
Plan fiduciary net position as a percentage of the total OPEB liability	1.76%									
Covered-employee payroll	\$ 5,068,706									
Town's net OPEB liability as a percentage of covered - employee payroll	221.73%									

"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"

Notes to Schedule:
Changes in assumption

Discount rate is 3.25% - previously 4.00%

The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for male and females.

The assumed pre-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for male and females.

The actuarial cost method is Individual Entry Age Normal

See Notes to the Required Supplementary Information

Town of Pepperell, Massachusetts
Required Supplementary Information
Schedule of Contributions - OPEB
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial determined contribution	\$ 938,626	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"</i>								
Contributions in relating to the actuarially determined contribution	(504,405)									
Contribution deficiency (excess)	\$ 434,221									
Covered-employee payroll	\$ 5,068,706									
Contributions as a percentage of covered-employee payroll	9.95%									

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value of Assets as of the Reporting Date, June 30, 2017
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single Equivalent Discount Rate	3.25%, net of OPEB plan investment expense, including inflation
Inflation	2.75% as of June 30, 2017 and for future period
Salary increases	3.00% annually as of June 30, 2017 and for future period
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

See Notes to the Required Supplementary Information

Town of Pepperell, Massachusetts
Required Supplementary Information
Schedule of Investment Returns - OPEB
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	0.00%	<i>"Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available"</i>								

See Notes to the Required Supplementary Information

Town of Pepperell, Massachusetts
Notes to the Required Supplementary Information
June 30, 2017

I 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.

II Pension Plans

i. 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 <https://middlesexretirement.org/wp-content/uploads/2017/07/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2016.pdf> or by writing to the to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

ii. 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.

iii. Change in Assumptions

The following changes were effective January 1, 2016:

- The pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 22 years with Scale AA to the RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D.
- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2D.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward three years projected 17 years with Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D.
- The investment return assumption was lowered from 7.875% to 7.75%.
- The administrative expense assumption was increased from \$3,400,000 for calendar 2014, increasing 4% per year, to \$3,500,000 for calendar 2016, and increasing 3.5%.

iv. 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 fiduciary net position of the plan as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

v. 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. As more information becomes available, this will be a ten year schedule.

III. 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, 2017. 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.

- i. **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 73 active employees and 62 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- ii. **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, 2017, 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 November 17, 2017.

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

November 17, 2017