

**TOWN OF PAXTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2014

# TOWN OF PAXTON, MASSACHUSETTS

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**ROSELLI, CLARK & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

500 West Cummings Park  
Suite 4900  
Woburn, MA 01801

Telephone: (781) 933-0073

[www.roselliclark.com](http://www.roselliclark.com)

**INDEPENDENT AUDITOR'S REPORT**

Honorable Board of Selectmen  
Town of Paxton, Massachusetts

**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 Paxton, Massachusetts, (the "Town") as of and for the year ended June 30, 2014 which collectively comprise the Town's basic financial statements as listed in the table of contents, (except for the Paxton Municipal Light Department, (the "Light Department") which is as of December 31, 2013). We did not audit the financial statements of the Light Department, a component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this blended presented component unit, is based solely on the report of the other auditors.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting 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 of material misstatement.

An audit includes 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 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 opinions.

## Opinions

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, as of June 30, 2014, (except for the Light Department, which is as of December 31, 2013) and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Restatements

The Town's basic financial statements as of and for the year ended June 30, 2013 were audited by other auditors whose opinion, dated January 15, 2014, on those basic financial statements was unqualified. In fiscal year 2014, a number of other restatements were made to Town's beginning net positions, which are described more fully in Note V. The other auditors reported on the basic financial statements before these restatements.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the funding and contribution progress for pension benefits and other postemployment benefits information and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 a report dated January 26, 2015, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Roselli, Clark and Associates  
Certified Public Accountants  
Woburn, Massachusetts 01801  
January 26, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Paxton, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$20.2 million (*total net position*).
- The Town's total net position increased nearly \$415,000 or approximately 2.1% year-over-year. The Town recorded increases of approximately \$315,000 and \$236,000 in its governmental activities and electric light enterprise fund. These increases were offset by a decrease of nearly \$137,000 in the Town's water enterprise fund, which experienced significant, non-capitalizable engineering expenses in 2014.
- The Town's total general obligation bond and notes payable debt decreased by nearly \$873,000 in fiscal year 2014 to approximately \$8,839,000. This decrease was due entirely to the normal, scheduled repayment of long-term general obligations and notes payable.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$2.8 million, which is consistent with the prior year. Of the ending fund balance approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$1,332,000, or over 11.9% of total fiscal year 2014 general fund expenditures.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town'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.

**Government-Wide Financial Statements** – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets and deferred outflows of resources and its liabilities and deferred inflows of resources, with the difference 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 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 to 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 pay).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include water and electric light enterprise funds.

**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, 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 can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative.

**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* available 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.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and Town capital projects funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

**Proprietary Funds** – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for enterprise funds of the water and electric light activities.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements** – The notes provide additional information that is essential to 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 certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

### **Government-Wide Financial Analysis**

The following tables represent the condensed statement of net position at June 30, 2014 and 2013 and statement of changes in net position for fiscal years 2014 and 2013:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2014	June 30, 2013 *	June 30, 2014	June 30, 2013 *	June 30, 2014	June 30, 2013 *
<b><u>Assets</u></b>						
Current and other assets	\$ 4,908,880	\$ 5,268,014	\$ 4,837,535	\$ 4,537,783	\$ 9,746,415	\$ 9,805,797
Capital assets, net	18,549,604	18,528,798	3,860,756	4,025,594	22,410,360	22,554,392
<b>Total assets</b>	<b>23,458,484</b>	<b>23,796,812</b>	<b>8,698,291</b>	<b>8,563,377</b>	<b>32,156,775</b>	<b>32,360,189</b>
<b>Deferred outflows of resources</b>	<b>-</b>	<b>-</b>	<b>651,188</b>	<b>655,151</b>	<b>651,188</b>	<b>655,151</b>
<b><u>Liabilities</u></b>						
Long-term liabilities	8,890,046	9,423,841	221,206	241,922	9,111,252	9,665,763
Other liabilities	1,160,118	1,279,388	457,704	425,924	1,617,822	1,705,312
<b>Total liabilities</b>	<b>10,050,164</b>	<b>10,703,229</b>	<b>678,910</b>	<b>667,846</b>	<b>10,729,074</b>	<b>11,371,075</b>
<b>Deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>1,851,974</b>	<b>1,831,851</b>	<b>1,851,974</b>	<b>1,831,851</b>
<b><u>Net Position</u></b>						
Invested in capital assets	11,148,775	10,527,607	3,735,756	3,875,593	14,884,531	14,403,200
Restricted	1,438,485	1,446,265	-	-	1,438,485	1,446,265
Unrestricted	821,060	1,119,711	3,082,839	2,843,238	3,903,899	3,962,949
<b>Total Net Position</b>	<b>\$ 13,408,320</b>	<b>\$ 13,093,583</b>	<b>\$ 6,818,595</b>	<b>\$ 6,718,831</b>	<b>\$ 20,226,915</b>	<b>\$ 19,812,414</b>

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2014	June 30, 2013 *	June 30, 2014	June 30, 2013 *	June 30, 2014	June 30, 2013 *
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 1,412,712	\$ 1,122,701	\$ 4,449,070	\$ 4,183,557	\$ 5,861,782	\$ 5,306,258
Operating grants and contributions	335,205	451,712	-	-	335,205	451,712
Capital grants and contributions	740,603	432,406	-	600	740,603	433,006
General revenues:						
Property taxes	8,820,658	8,626,223	-	-	8,820,658	8,626,223
Intergovernmental	484,689	573,099	-	-	484,689	573,099
Other	672,410	720,503	12,223	55,929	684,633	776,432
<b>Total Revenues</b>	<b>12,466,277</b>	<b>11,926,644</b>	<b>4,461,293</b>	<b>4,240,086</b>	<b>16,927,570</b>	<b>16,166,730</b>
<b><u>Expenses</u></b>						
General government	928,571	799,417	-	-	928,571	799,417
Public safety	3,216,393	2,956,921	-	-	3,216,393	2,956,921
Education	5,911,035	5,855,433	-	-	5,911,035	5,855,433
Public works	1,247,104	1,216,577	-	-	1,247,104	1,216,577
Health and human services	146,108	180,335	-	-	146,108	180,335
Culture and recreation	286,730	329,555	-	-	286,730	329,555
Debt service	415,599	415,981	-	-	415,599	415,981
Water services	-	-	845,125	744,061	845,125	744,061
Electric Light services	-	-	3,516,404	3,354,720	3,516,404	3,354,720
<b>Total Expenses</b>	<b>12,151,540</b>	<b>11,754,219</b>	<b>4,361,529</b>	<b>4,098,781</b>	<b>16,513,069</b>	<b>15,853,000</b>
<b>Change in net position</b>	<b>314,737</b>	<b>172,425</b>	<b>99,764</b>	<b>141,305</b>	<b>414,501</b>	<b>313,730</b>
<b>Net position - beginning of year (as restated)</b>	<b>13,093,583</b>	<b>12,921,158</b>	<b>6,718,831</b>	<b>6,577,526</b>	<b>19,812,414</b>	<b>19,498,684</b>
<b>Net position, end of year</b>	<b>\$ 13,408,320</b>	<b>\$ 13,093,583</b>	<b>\$ 6,818,595</b>	<b>\$ 6,718,831</b>	<b>\$ 20,226,915</b>	<b>\$ 19,812,414</b>

\* Refer to Note V to the basic financial statements for a complete discussion regarding the restatements made to the June 30, 2013 previously reported net position. In addition, certain reclassifications were made to the 2013 balances to conform to the 2014 presentation.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's total net position increased nearly \$415,000 or approximately 2.1% year-over-year. The Town recorded increases of approximately \$315,000 and \$236,000 in its governmental activities and electric light enterprise fund. These increases were offset by a decrease of nearly \$137,000 in the Town's water enterprise fund, which experienced significant, non-capitalizable engineering expenses in 2014.

The largest portion (\$14.9 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town's total net position (\$1.4 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position*, which currently has a balance of approximately \$3.9 million.

**Governmental Activities** – Total revenues in fiscal year 2014 in the Town's governmental activities increased nearly \$540,000, or 4.5%, from fiscal year 2013. The Town's largest revenue source is property taxes, which represent approximately 71% of total fiscal year 2014 revenues. Charges for



services represented approximately 11% of total fiscal year 2014 revenues. No other revenue sources were greater than 10% of total revenues in fiscal year 2014.

Education represents the largest expense category for the Town. In total, education expenses represented approximately 49% of total fiscal year 2014 expenses. Public safety and public works expenses represented approximately 27% and 10% of total fiscal year 2014 expenses, respectively. No other expense types were greater than 10% of total expenses in fiscal years 2014.

**Business-Type Activities** – User charges for water and electric light services represent virtually all of the reported fiscal year 2014 revenues in the Town’s business-type activities. In fiscal year 2014, the Town’s electric light enterprise reported positive results from operations; the Town’s water enterprise reported a loss from operations of approximately \$137,000. The water operations incurred significant engineering services in 2014. In addition, the water department experienced several operating inefficiencies that resulted in lost revenue opportunities. The Water Commissioners raised water rates by 7.5% in fiscal year 2015.

### **Government Funds Financial Analysis**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the Town’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$2,792,000, which was consistent with the prior year’s balance. Of the ending fund balance, approximately \$1,307,000 is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$1,332,000, while total general fund balance reached approximately \$1,353,000. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance at year end represents over 11.9% of total fiscal year 2014 general fund expenditures, while total fund balance represents approximately 12.1% of that same amount.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds, capital project funds and trust funds.

**Proprietary Funds** – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$2,121,000 and net position of the electric light fund was approximately \$4,697,000.

**Fiduciary Fund** – The Town’s fiduciary fund is comprised of the electric light fund’s OPEB trust and agency funds.

## **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were not significant.

## **Capital Asset and Debt Administration**

**Capital Assets** –The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to approximately \$22.4 million, net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects a decrease of approximately \$114,000. This decrease was a result of current year depreciation exceeding capital additions. Furthermore, the Town disposed of certain assets in fiscal year 2014 and recorded a loss on disposal of assets of nearly \$15,000.

Additional information on the Town capital assets can be found in Note II, Section D of this report.

**Long-Term Debt** – The Town’s total general obligation bond and notes payable debt decreased by nearly \$873,000 in fiscal year 2014 to \$8,839,000. This decrease was due entirely to the normal, scheduled repayment of long-term general obligations and notes payable. The Town expects to issue additional long-term general obligations in fiscal years 2015 and 2016 relative to significant capital projects to the Town’s water infrastructure.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. Debt service from such arrangements is assessed annually to the Town. Additional information on the Town’s debt can be found in Note II, Sections F and G of this report.

## **Economic Factors and Next Year’s Budgets and Rates**

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2015 are approximately 94.5% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year’s tax levy. The Town typically taxes at or near its levy limit annually.
- Consistent with both State and National indices, the Town’s housing market experienced a downward trend from 2005 to 2010. Housing prices began to stabilize during fiscal year 2011 and have seen an upward trend for the past three fiscal years. However, the Town’s median home price is modestly lower than the state-wide average.
- Inflationary trends in the region are consistent with state and national indices.
- The U.S. Bureau of Labor Statistics reported a 6.2% unemployment rate for Worcester County for June 2014, which is greater than the state-wide unemployment rate of 5.5%. Town-specific unemployment data indicates that the Town’s unemployment rate for June 2014 was 4.9%. Labor markets continue to stabilize within the Town’s local community and nationwide.
- The Town’s median household income is significantly higher than the state-wide and national averages.

The above items were considered when the Town accepted its budget for fiscal year 2015 at the May 2014 Town Meeting. The Town set its fiscal year 2015 tax rate on November 14, 2014.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, Town Hall, 697 Pleasant Street, Paxton, Massachusetts 01612.

**TOWN OF PAXTON, MASSACHUSETTS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,508,719	\$ 3,184,721	\$ 4,693,440
Investments	1,185,305	988,104	2,173,409
Receivables, net:			
Property taxes	239,024	-	239,024
User fees	-	641,210	641,210
Departmental and other	207,808	-	207,808
Intergovernmental	1,768,024	-	1,768,024
Other assets	-	23,500	23,500
Land	2,673,115	641,719	3,314,834
Capital assets, net of accumulated depreciation	15,876,489	3,219,037	19,095,526
<b>Total Assets</b>	<b>23,458,484</b>	<b>8,698,291</b>	<b>32,156,775</b>
<b>Deferred Outflows of Resources</b>			
Purchased power working capital	-	439,507	439,507
Materials and supplies	-	138,437	138,437
Prepaid expenses	-	73,244	73,244
<b>Deferred Outflows of Resources</b>	<b>-</b>	<b>651,188</b>	<b>651,188</b>
<b>Liabilities</b>			
Warrants and accounts payable	148,052	373,509	521,561
Accrued expenses	-	17,563	17,563
Accrued interest	119,873	241	120,114
Other liabilities	6,226	-	6,226
Noncurrent liabilities:			
Due within one year	885,967	25,591	911,558
Due in more than one year	8,890,046	221,206	9,111,252
<b>Total Liabilities</b>	<b>10,050,164</b>	<b>638,110</b>	<b>10,688,274</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - rate stabilization reserve	-	1,776,482	1,776,482
Unavailable revenue - other	-	116,292	116,292
<b>Deferred Inflows of Resources</b>	<b>-</b>	<b>1,892,774</b>	<b>1,892,774</b>
<b>Net Position</b>			
Invested in capital assets	11,148,775	3,735,756	14,884,531
Restricted:			
Permanent funds	592,733	-	592,733
Capital projects	19,655	-	19,655
Revolving funds	668,752	-	668,752
Gifts and donations	66,342	-	66,342
Other purposes	91,003	-	91,003
Unrestricted	821,060	3,082,839	3,903,899
<b>Total Net Position</b>	<b>\$ 13,408,320</b>	<b>\$ 6,818,595</b>	<b>\$ 20,226,915</b>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 928,571	\$ 171,072	\$ 101,317	\$ -	\$ (656,182)		\$ (656,182)
Public safety	3,216,393	855,398	40,953	427,500	(1,892,542)		(1,892,542)
Education	5,911,035	-	140,818	-	(5,770,217)		(5,770,217)
Public works	1,247,104	297,254	-	289,078	(660,772)		(660,772)
Health and human services	146,108	20,866	32,127	-	(93,115)		(93,115)
Culture and recreation	286,730	68,122	19,990	-	(198,618)		(198,618)
Interest expense	415,599	-	-	24,025	(391,574)		(391,574)
Total governmental activities	12,151,540	1,412,712	335,205	740,603	(9,663,020)		(9,663,020)
Business-Type activities:							
Water	845,125	708,233	-	-		\$ (136,892)	(136,892)
Electric Light	3,516,404	3,740,837	-	-		224,433	224,433
Total business-type activities	4,361,529	4,449,070	-	-		87,541	87,541
Total Primary Government	\$ 16,513,069	\$ 5,861,782	\$ 335,205	\$ 740,603	(9,663,020)	87,541	(9,575,479)
General Revenues:							
Property taxes					8,820,658	-	8,820,658
Motor vehicle and other excise taxes					614,510	-	614,510
Intergovernmental					484,689	-	484,689
Penalties and interest on taxes					24,075	-	24,075
Unrestricted investment income					48,631	12,223	60,854
Loss on disposal of assets, net					(14,806)	-	(14,806)
Transfers (net)					-	-	-
Total general revenues and transfers					9,977,757	12,223	9,989,980
Change in Net Position					314,737	99,764	414,501
Net Position:							
Beginning of year (As restated; see Note V)					13,093,583	6,718,831	19,812,414
End of year					\$ 13,408,320	\$ 6,818,595	\$ 20,226,915

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 975,839	\$ 532,880	\$ 1,508,719
Investments	481,583	703,722	1,185,305
Receivables, net of allowance for uncollectibles:			
Property taxes	239,024	-	239,024
Departmental and other	54,637	153,171	207,808
Intergovernmental	1,540,812	227,212	1,768,024
<b>Total Assets</b>	<u>3,291,895</u>	<u>1,616,985</u>	<u>4,908,880</u>
 <b>Total Deferred Outflows of Resources</b>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <b>Total Assets and Deferred Outflows of Resources</b>	 <u><u>\$ 3,291,895</u></u>	 <u><u>\$ 1,616,985</u></u>	 <u><u>\$ 4,908,880</u></u>
 <b>Liabilities:</b>			
Warrants and accounts payable	\$ 122,723	\$ 25,329	\$ 148,052
Other liabilities	6,226	-	6,226
<b>Total Liabilities</b>	<u>128,949</u>	<u>25,329</u>	<u>154,278</u>
 <b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	214,194	-	214,194
Unavailable revenue - intergovernmental	1,540,812	-	1,540,812
Unavailable revenue - other	54,637	153,171	207,808
<b>Total Deferred Inflows of Resources</b>	<u>1,809,643</u>	<u>153,171</u>	<u>1,962,814</u>
 <b>Fund Balances:</b>			
Nonspendable	-	334,186	334,186
Restricted	2,623	1,128,917	1,131,540
Assigned	18,950	-	18,950
Unassigned	1,331,730	(24,618)	1,307,112
<b>Total Fund Balances</b>	<u>1,353,303</u>	<u>1,438,485</u>	<u>2,791,788</u>
 <b>Total Liabilities , Deferred Inflows of Resources and Fund Balances</b>	 <u><u>\$ 3,291,895</u></u>	 <u><u>\$ 1,616,985</u></u>	 <u><u>\$ 4,908,880</u></u>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

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<b>Total Governmental Fund Balances</b>	<b>\$ 2,791,788</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,549,604
Other assets are not available to pay for current-period expenditures and are therefore deferred inflows of financial resources in the funds.	1,962,814
In the statement of net position, interest is accrued on outstanding long-term debt whereas in the governmental funds, interest is not reported until due.	(119,873)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(8,713,733)
Capital lease obligations	(227,908)
Compensated absences	(63,460)
Other postemployment benefits	(770,912)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 13,408,320</u></b>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 8,816,833	\$ -	\$ 8,816,833
Intergovernmental	1,092,911	748,157	1,841,068
Motor vehicle and other excises	639,447	-	639,447
Licenses and permits	61,195	-	61,195
Penalties and interest on taxes	24,075	-	24,075
Fines and forfeitures	12,991	-	12,991
Investment income	20,204	36,121	56,325
Departmental and other revenue	374,433	913,609	1,288,042
Contributions and donations	-	33,449	33,449
<b>Total Revenues</b>	<u>11,042,089</u>	<u>1,731,336</u>	<u>12,773,425</u>
<b>Expenditures:</b>			
Current:			
General government	719,806	20,749	740,555
Public safety	1,580,975	1,168,162	2,749,137
Education	5,536,536	-	5,536,536
Public works	947,537	274,994	1,222,531
Health and human services	77,381	34,100	111,481
Culture and recreation	181,765	136,236	318,001
Pension and fringe benefits	796,964	-	796,964
State and county assessments	55,343	-	55,343
Debt service:			
Principal	847,697	-	847,697
Interest	404,159	-	404,159
<b>Total Expenditures</b>	<u>11,148,163</u>	<u>1,634,241</u>	<u>12,782,404</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(106,074)</u>	<u>97,095</u>	<u>(8,979)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	27,195	-	27,195
Transfers out	-	(27,195)	(27,195)
<b>Total Other Financing Sources (Uses)</b>	<u>27,195</u>	<u>(27,195)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(78,879)	69,900	(8,979)
<b>Fund Balances - Beginning of year</b>	<u>1,432,182</u>	<u>1,368,585</u>	<u>2,800,767</u>
<b>Fund Balances - End of year</b>	<u>\$ 1,353,303</u>	<u>\$ 1,438,485</u>	<u>\$ 2,791,788</u>

See accompanying notes to basic financial statements.



**TOWN OF PAXTON, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2014**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (8,979)**

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. The net amounts are reflects as reconciling items:

Capital outlays	930,860	
Depreciation expense	(887,554)	
Loss on disposal of assets	(22,500)	
Net effect of reporting capital assets		20,806

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. The net amounts are reflected here as reconciling items:

Repayments of debt and capital lease obligations	878,378	
Net effect of reporting long-term debt		878,378

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 differ between the two statements. The amount presented represents the following differences derived from unavailable revenue. (284,648)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Accrued interest	(11,440)	
Compensated absences	21,697	
Other postemployment benefits	(301,077)	
Net effect of reporting long-term liabilities		(290,820)

**Change in Net Position of Governmental Activities** **\$ 314,737**

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	Business-Type Activities		
	Water	Electric Light December 31, 2013	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 249,761	\$ 2,934,960	\$ 3,184,721
Investments	-	988,104	988,104
User charges receivable, net	129,603	511,607	641,210
Total current assets	<u>379,364</u>	<u>4,434,671</u>	<u>4,814,035</u>
Noncurrent assets:			
Other assets	-	23,500	23,500
Land	641,400	319	641,719
Capital assets, net of accumulated depreciation	1,339,739	1,879,298	3,219,037
Total noncurrent assets	<u>1,981,139</u>	<u>1,903,117</u>	<u>3,884,256</u>
<b>Total Assets</b>	<u>2,360,503</u>	<u>6,337,788</u>	<u>8,698,291</u>
<b>Deferred Outflows of Resources</b>			
Purchased power working capital	-	439,507	439,507
Materials and supplies	-	138,437	138,437
Prepaid expenses	-	73,244	73,244
<b>Total Deferred Outflows of Resources</b>	<u>-</u>	<u>651,188</u>	<u>651,188</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 2,360,503</u>	<u>\$ 6,988,976</u>	<u>\$ 9,349,479</u>
<b>Liabilities</b>			
Current liabilities:			
Warrants and accounts payable	\$ 76,840	\$ 296,669	\$ 373,509
Accrued expenses	-	17,563	17,563
Accrued interest	241	-	241
Compensated absences	591	-	591
Bonds and notes payable	25,000	-	25,000
Total current liabilities	<u>102,672</u>	<u>314,232</u>	<u>416,904</u>
Noncurrent liabilities:			
Compensated absences	1,774	-	1,774
Other postemployment benefits	34,639	84,793	119,432
Bonds and notes payable	100,000	-	100,000
Total noncurrent liabilities	<u>136,413</u>	<u>84,793</u>	<u>221,206</u>
<b>Total Liabilities</b>	<u>239,085</u>	<u>399,025</u>	<u>638,110</u>
<b>Deferred Inflows of Resources</b>			
Customer deposits	-	40,800	40,800
Purchased power adjustment	-	42,246	42,246
Contribution in aid of construction	-	33,246	33,246
Rate stabilization reserve	-	1,776,482	1,776,482
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>1,892,774</u>	<u>1,892,774</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>239,085</u>	<u>2,291,799</u>	<u>2,530,884</u>
<b>Net Position</b>			
Invested in capital assets	1,856,139	1,879,617	3,735,756
Unrestricted	265,279	2,817,560	3,082,839
<b>Total Net Position</b>	<u>\$ 2,121,418</u>	<u>\$ 4,697,177</u>	<u>\$ 6,818,595</u>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FISCAL YEAR ENDED JUNE 30, 2014**

	Business-Type Activities		
	Water	Electric Light December 31, 2013	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 708,233	\$ 3,497,598	\$ 4,205,831
Other	-	240,443	240,443
<b>Total Operating Revenues</b>	<u>708,233</u>	<u>3,738,041</u>	<u>4,446,274</u>
<b>Operating Expenses:</b>			
Water purchases	429,778	-	429,778
Personnel and other operating costs	310,725	3,270,269	3,580,994
Depreciation	97,729	246,067	343,796
<b>Total Operating Expenses</b>	<u>838,232</u>	<u>3,516,336</u>	<u>4,354,568</u>
<b>Total Operating Income (Loss)</b>	<u>(129,999)</u>	<u>221,705</u>	<u>91,706</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	254	11,969	12,223
Interest expense	(6,893)	(68)	(6,961)
Other	-	2,796	2,796
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(6,639)</u>	<u>14,697</u>	<u>8,058</u>
<b>Change in Net Position</b>	<u>(136,638)</u>	<u>236,402</u>	<u>99,764</u>
<b>Net Position - Beginning of Year (As restated; see Note V)</b>	<u>2,258,056</u>	<u>4,460,775</u>	<u>6,718,831</u>
<b>Net Position - End of Year</b>	<u>\$ 2,121,418</u>	<u>\$ 4,697,177</u>	<u>\$ 6,818,595</u>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2014**

	Business-Type Activities		
		Electric Light December 31,	
	Water	2013	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 727,090	\$ 3,474,203	\$ 4,201,293
Receipts from other operating revenues	-	240,443	240,443
Payments to employees	(123,828)	(706,400)	(830,228)
Payments to vendors	(583,628)	(2,622,650)	(3,206,278)
<b>Net Cash Provided by Operating Activities</b>	<u>19,634</u>	<u>385,596</u>	<u>405,230</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Interest expense	-	(68)	(68)
<b>Net Cash Used in Noncapital Financing Activities</b>	<u>-</u>	<u>(68)</u>	<u>(68)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Contribution in aid of construction	-	33,246	33,246
Customer advances for construction	-	2,796	2,796
Acquisition and construction of capital assets	-	(178,958)	(178,958)
Principal payments on bonds and notes	(25,000)	-	(25,000)
Interest payments on bonds and notes	(6,936)	-	(6,936)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(31,936)</u>	<u>(142,916)</u>	<u>(174,852)</u>
<b>Cash Flows from Investing Activities:</b>			
Investment income	254	64,468	64,722
Investment of operating cash	-	(33,405)	(33,405)
<b>Net Cash Provided by Investing Activities</b>	<u>254</u>	<u>31,063</u>	<u>31,317</u>
<b>Net Change in Cash and Cash Equivalents</b>	(12,048)	273,675	261,627
<b>Cash and Cash Equivalents:</b>			
<b>Beginning of the year</b>	<u>261,809</u>	<u>2,661,285</u>	<u>2,923,094</u>
<b>End of the year</b>	<u><u>\$ 249,761</u></u>	<u><u>\$ 2,934,960</u></u>	<u><u>\$ 3,184,721</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating Income (Loss)	\$ (129,999)	\$ 221,705	\$ 91,706
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	97,729	246,067	343,796
Changes in assets and liabilities:			
Receivables	18,857	(53,869)	(35,012)
Prepaid expenses and materials	-	3,963	3,963
Accounts payable and accrued expenses	33,047	(32,270)	777
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 19,634</u></u>	<u><u>\$ 385,596</u></u>	<u><u>\$ 405,230</u></u>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**FIDUCIARY FUNDS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2014**

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	OPEB Trust Electric Light at December 31, 2013	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 182,364	\$ 73,897
<b>Total Assets</b>	<u>182,364</u>	<u>73,897</u>
<b>Liabilities</b>		
Escrows and deposits held	<u>-</u>	<u>73,897</u>
<b>Total Liabilities</b>	<u>-</u>	<u>73,897</u>
<b>Net Position</b>		
Held in trust for other postemployment benefits	<u>182,364</u>	<u>-</u>
<b>Total Net Position</b>	<u><u>\$ 182,364</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

**TOWN OF PAXTON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014**

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	OPEB Trust Electric Light For the Year Ended December 31, 2013
<b>Additions:</b>	
Investment income	\$ 16,500
<b>Total Additions</b>	<u>16,500</u>
<b>Change in Net Position</b>	16,500
<b>Net Position - beginning of year</b>	<u>165,864</u>
<b>Net Position - end of year</b>	<u><u>\$ 182,364</u></u>

See accompanying notes to basic financial statements.

## TOWN OF PAXTON, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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#### **I. Summary of Significant Accounting Policies**

The accompanying basic financial statements of the Town of Paxton (the “Town”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

##### **A. Reporting Entity**

The Town is located in Worcester County, approximately forty-five miles west of the City of Boston and borders the City of Worcester. The Town was incorporated in 1765. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve staggered three-year terms.

The Town provides governmental services for the territory within its boundaries, including public safety, education through a regional school district, public works, health and human services, culture and recreation, general governmental services, water and electricity. The water and electricity services are funded through user charges and treated as business enterprises.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. The component unit discussed below is included in the Town's reporting entity because of the significance of its operations or financial relationships with the Town.

*Paxton Municipal Light Department* – Paxton Municipal Light Department, (“PMLD” or “Electric Light”), which provides electrical services to the Town’s inhabitants, is required to be included as a component unit of the Town. PMLD accounts for its operations on a calendar year basis. The net position and results of PMLD’s operations as of and for the year ended December 31, 2013 have been included in the Town’s proprietary funds financial statements. The PMLD issued stand-alone audited financial statements from another auditor, which can be obtained from the PMLD. PMLD is located at 578 Pleasant Street, Paxton Massachusetts 01612.

The Town is a member community of the Wachusett Regional School District, which provides educational services to five area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2014, the Town’s assessment was \$5,261,904. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District’s administrative office located at Jefferson School, 1745 Main Street, Jefferson, MA 01522.

In addition, the Town is a member community of the Bay Path Regional Vocational Technical School, which belongs to the Southern Worcester County Regional Vocational School District. This joint venture assesses each of the ten member communities its share of the operational and debt service costs based on student population and other factors. In fiscal year 2014, the Town's assessment was \$274,632. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 57 Old Muggett Hill Road, Charlton, MA 01507.

## **B. Government-Wide and Fund 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 interfund activity has been removed from these statements. *Governmental 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. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

*Major Fund Criteria* – Major funds must be reported if both of the following criteria are met:

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent 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.

## **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*. For the most part, the effect of Interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth of Massachusetts (the “Commonwealth”).

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major Governmental Funds:

*General Fund* – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

*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 describes the general use of these fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

The Permanent Funds are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary fund:

Water Enterprise Fund – is used to account for the operation of the Town's water activities.

PMLD – is used to account for the operation of the Town's electrical power distribution activities.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The Town reports the following fiduciary funds:

PMLD OPEB Trust Funds – is used to account for trust arrangement established by the PMLD for other postemployment benefits.

Agency Fund – is used to account for assets held in a purely custodial capacity. The Town's agency funds consist primarily of student activities, off-duty work details and escrow and other deposits.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity**

Deposits and Investments – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town and its component unit are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semiannually and are due on October 1 and April 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and user fees are secured through a lien process within sixty days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

*Inventories and Prepaid Items* – In the case of the Town, inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. With respect to the PMLD, materials and supplies are inventories of parts and accessories purchased for use in PMLD's operations. Materials and supplies inventory are stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in both government-wide and fund financial statements.

*Capital Assets* – Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, vehicles, software and infrastructure (e.g. roads, sidewalks, water mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. 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.

All purchases and construction costs in excess of \$2,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated by the Town and the PMLD on a straight-line-basis.

The estimated useful lives of capital assets being depreciated are as follows:

Land improvements	40 years
Buildings and improvements	10 - 50 years
Vehicles, machinery and equipment	5 - 25 years
Infrastructure	15 - 50 years

*Interfund Balances* – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

*Interfund Transfers* – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances

outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

*Investment Income* – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is voluntarily assigned to the general fund.

*Compensated Absences* – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

*Long-term Obligations* – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of financial position 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 financial position 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.

*Net Position* – In the government-wide financial statements, net position reported as “invested 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 capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

*Perpetual funds* represent both the endowment portion of donor restricted trusts that support governmental programs and the spendable, yet restricted, amount of various trust funds that support governmental programs (i.e., expendable funds).

*Capital projects funds* represent remaining balances from bond proceeds or other financing sources that are restricted by state law to specific capital purposes and borrowing terms.

*Revolving funds* represent assets that have been accumulated from specific services not supported by the Town's general appropriation.

*Gifts and donations* are funds donated to the Town for specific (i.e., restricted) purposes.

*Other purposes* represent assets that are restricted by donors for specific governmental programs and uses.

**Fund Equity** – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

*Non-spendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* represents amounts that can only be used for specific purposes pursuant to formal action of the Town's highest level of decision making authority, which is the Town Meeting action, and can be modified or rescinded on through these actions.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a *negative* unassigned fund balance amount.

The following table reflects the Town's fund equity categorizations:

	General	Nonmajor Governmental Funds	Total
Nonspendable:			
Nonexpendable trust funds	\$ -	\$ 334,186	\$ 334,186
Restricted:			
General government	-	205,861	205,861
Public safety	-	218,095	218,095
Education	-	19,978	19,978
Public works	-	15,919	15,919
Health and human services	-	409,302	409,302
Culture and recreation	-	259,762	259,762
Debt service	2,623	-	2,623
Assigned:			
General government	16,642	-	16,642
Other purposes	2,308	-	2,308
Unassigned:			
Stabilization - general	368,913	-	368,913
Stabilization - capital	112,680		
Unrestricted	850,137	(24,618)	825,519
	<u>\$ 1,353,303</u>	<u>\$ 1,438,485</u>	<u>\$ 2,679,108</u>

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of Town Meeting. The balance of the fund totals \$368,913 at June 30, 2014 and is reported as unassigned fund balance in the general fund. In addition, the Town also maintains a capital stabilization fund which may be used for capital purposes upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$112,680 at June 30, 2014 and is reported as unassigned fund balance in the General Fund.

Encumbrances – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Controller as assigned, and (2) classify encumbrances that result from an action of the Town Council as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$18,950 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

## **E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended June 30, 2014, there were no instances where expenditures exceeded appropriations. Deficits of \$24,618 in the nonmajor funds will be funded in future years through grants or other available sources.

## **F. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as *cash and cash equivalents*. The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

#### ***Deposits and Investments of the Town (excludes the PMLD)***

*Custodial Credit Risk: Deposits* - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2014, \$1,560,979 of the Town's bank deposits were not insured by the Federal Depository Insurance Corporation ("FDIC"), the Depositors Insurance Fund ("DIF") or other forms of collateralization and was therefore exposed to custodial credit risk.

*Custodial Credit Risk: Investments* - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. Of the Town's investments, \$293,326 in United States governmental obligations and \$102,392 in corporate fixed income securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town does not have a formal investment policy related to custodial credit risk.

**Interest Rate Risk** – The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk** – The Town does not place a limit on the amount that may be invested in any one issuer. The Town’s investments in government obligations of federal agencies and in U.S. Treasuries represented 15.2% and 95% of the Town’s total investments at June 30, 2014, respectively. No other individual investment represented more than 5% of the Town’s total investments.

**Credit Risk** – The Town has not adopted a formal policy related to credit risk.

**Investment Maturities** – At June 30, 2014, the Town had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Corporate fixed income securities	\$ 102,392	\$ 35,277	\$ 67,115	\$ -	\$ -
U.S. government obligations	293,326	-	293,326	-	-
Certificates of deposit	437,291	50,213	387,078	-	-
Total investments with maturities	833,009	\$ 85,490	\$ 747,519	\$ -	\$ -
<u>Other Investments:</u>					
Equities	36,533				
Mutual Funds	315,763				
Total Town investments	\$ 1,185,305				

Of the Town’s investments in corporate fixed income, \$66,263 were rated by Moody’s Investors Service (“Moody’s”) as A1 and \$36,129 were rated Baa1. In addition, all of the Town’s government securities were rated Aaa by Moody’s. Ratings are not available for the Town’s investments in certificates of deposit, equities or mutual funds.

***Deposits and Investments of the PMLD (as of December 31, 2013)***

**Custodial Credit Risk: Deposits** – Deposits are subject to the risk of bank failure. The PMLD may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The PMLD’s policy for custodial credit risk of deposits is to rely on FDIC and DIF insurance coverage for deposits held at each financial institution. At December 31, 2013, the PMLD had bank deposits of \$297,938 exposed to custodial credit risk because it was uninsured by either the FDIC or DIF.

**Custodial Credit Risk: Investments** – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the PMLD will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The PMLD’s policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the PMLD. At December 31, 2013, the PMLD was not exposed to custodial credit risk on its investments.



**Interest Rate Risk: Investments** – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The PMLD does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk: Investments** –The PMLD’s investments in government obligations of federal agencies and in U.S. Treasuries represented 35.1% of the PMLD’s total investments at June 30, 2014, respectively. No other individual investment represented more than 5% of the PMLD’s total investments.

**Investment Maturities** – At December 31, 2013, the PMLD had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Corporate fixed income securities	\$ 641,315	\$ 129,203	\$ 296,796	\$ 215,316	\$ -
U.S. government obligations	346,789	43,070	146,663	157,056	-
Total investments with maturities	<u>\$ 988,104</u>	<u>\$ 172,273</u>	<u>\$ 443,459</u>	<u>\$ 372,372</u>	<u>\$ -</u>

All of the PMLD’s investments in U.S. government obligations were rated AA+ by Standard and Poors Financial Services LLC (“S&P”). Of the PMLD’s investments in corporate fixed income securities, \$130,796 was rated by S&P as AA+, \$98,175 was AA, \$30,804 was AA-, \$95,265 as A+, \$158,395 as A and \$127,880 as A-.

## B. Receivables

Receivables as of June 30, 2014 for the Town’s major governmental funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate taxes	\$ 74,622	\$ -	\$ 74,622
Personal property taxes	1,126	(321)	805
Tax liens	163,597	-	163,597
Motor vehicle and other excise taxes	63,809	(31,862)	31,947
Departmental and other	89,088	-	89,088
Title V loan receivables	86,773	-	86,773
Intergovernmental	1,768,024	-	1,768,024
Total	<u>\$ 2,247,039</u>	<u>\$ (32,183)</u>	<u>\$ 2,214,856</u>

Receivables as of June 30, 2014 for the Town's proprietary funds were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user charges	\$ 129,603	\$ -	\$ 129,603
PMLD user charges	511,607	-	511,607
Total	<u>\$ 641,210</u>	<u>\$ -</u>	<u>\$ 641,210</u>

Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following table identifies the components of unavailable revenues in the governmental funds:

	General Fund	Nonmajor Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 50,597	\$ -	\$ 50,597
Tax liens	163,597	-	163,597
Motor vehicle and other excise taxes	31,947	-	31,947
Departmental and other	22,690	153,171	175,861
Intergovernmental and other	1,540,812	-	1,540,812
Total	<u>\$ 1,809,643</u>	<u>\$ 153,171</u>	<u>\$ 1,962,814</u>

School Building Assistance Reimbursement – As of June 30, 2014, the Town expects to receive the balance of grants from the Massachusetts School Building Authority (“MSBA”) of \$1,690,225 for approved school construction costs. These costs are reimbursed to the Town in equal installments over the life of the related bond issues and are subject to appropriation only by the State Legislature. An intergovernmental receivable of \$1,540,812 has been recorded in the Town's general fund, which is the principal portion of these expected future receipts.

### C. Interfund Receivables, Payables and Transfers

The composition of interfund transfers for the year ended June 30, 2014 is as follows:

	Transfers In
Transfers Out	General Fund
Nonmajor funds	<u>\$ 27,195</u>

## D. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 2,673,115	\$ -	\$ -	\$ 2,673,115
Capital assets being depreciated:				
Buildings and improvements	21,837,398	88,324	-	21,925,722
Infrastructure	1,798,104	274,994	-	2,073,098
Machinery and equipment	1,199,139	-	(135,069)	1,064,070
Vehicles	3,140,481	567,542	(287,697)	3,420,326
Total capital assets being depreciated	27,975,122	930,860	(422,766)	28,483,216
Less accumulated depreciation for:				
Buildings and improvements	(8,766,092)	(464,232)	-	(9,230,324)
Infrastructure	(531,439)	(126,448)	-	(657,887)
Machinery and equipment	(694,658)	(76,296)	135,069	(635,885)
Vehicles	(2,127,250)	(220,578)	265,197	(2,082,631)
Total accumulated depreciation	(12,119,439)	(887,554)	400,266	(12,606,727)
Total capital assets being depreciated, net	15,855,683	43,306	(22,500)	15,876,489
Total governmental activities capital assets, net	\$ 18,528,798	\$ 43,306	\$ (22,500)	\$ 18,549,604
	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 641,719	\$ -	\$ -	\$ 641,719
Construction in process	928,823	-	(928,823)	-
Total capital assets not being depreciated	1,570,542	-	(928,823)	641,719
Capital assets being depreciated:				
Electric plant	4,921,340	1,107,781	(369,302)	5,659,819
Buildings and improvements	689,100	-	-	689,100
Infrastructure	2,961,244	-	-	2,961,244
Machinery and equipment	30,929	-	-	30,929
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	8,629,033	1,107,781	(369,302)	9,367,512
Less accumulated depreciation for:				
Electric plant	(3,903,756)	(246,067)	369,302	(3,780,521)
Buildings and improvements	(319,864)	(15,603)	-	(335,467)
Infrastructure	(1,914,799)	(73,649)	-	(1,988,448)
Machinery and equipment	(18,578)	(4,703)	-	(23,281)
Vehicles	(16,984)	(3,774)	-	(20,758)
Total accumulated depreciation	(6,173,981)	(343,796)	369,302	(6,148,475)
Total capital assets being depreciated, net	2,455,052	763,985	-	3,219,037
Total business-type activities capital assets, net	\$ 4,025,594	\$ 763,985	\$ (928,823)	\$ 3,860,756

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 641,400	\$ -	\$ -	\$ 641,400
Capital assets being depreciated:				
Buildings and improvements	689,100	-	-	689,100
Infrastructure	2,961,244	-	-	2,961,244
Machinery and equipment	30,929	-	-	30,929
Vehicles	26,420			26,420
Total capital assets being depreciated	3,707,693	-	-	3,707,693
Less accumulated depreciation for:				
Buildings and improvements	(319,864)	(15,603)	-	(335,467)
Infrastructure	(1,914,799)	(73,649)	-	(1,988,448)
Machinery and equipment	(18,578)	(4,703)	-	(23,281)
Vehicles	(16,984)	(3,774)	-	(20,758)
Total accumulated depreciation	(2,270,225)	(97,729)	-	(2,367,954)
Total capital assets being depreciated, net	1,437,468	(97,729)	-	1,339,739
Total water capital assets, net	\$ 2,078,868	\$ (97,729)	\$ -	\$ 1,981,139
	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities: PMLD</u></i>				
Capital assets not being depreciated:				
Land	\$ 319	\$ -	\$ -	\$ 319
Construction in-process	928,823	-	(928,823)	-
Total capital assets not being depreciated	929,142	-	(928,823)	319
Capital assets being depreciated:				
Distribution plant	3,843,725	1,076,865	(355,955)	4,564,635
General plant	1,077,615	30,916	(13,347)	1,095,184
Total capital assets being depreciated	4,921,340	1,107,781	(369,302)	5,659,819
Less accumulated depreciation for:				
Distribution plant	(3,285,347)	(192,187)	355,955	(3,121,579)
General plant	(618,409)	(53,880)	13,347	(658,942)
Total accumulated depreciation	(3,903,756)	(246,067)	369,302	(3,780,521)
Total capital assets being depreciated, net	1,017,584	861,714	-	1,879,298
Total PMLD capital assets, net	\$ 1,946,726	\$ 861,714	\$ (928,823)	\$ 1,879,617

Certain restatements were made to the beginning carrying values of the Town's capital assets.  
Refer to Note V.

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General government	\$ 13,814	Water	\$ 97,729
Public safety	381,523	PMLD	246,067
Education	238,707		<u>\$ 343,796</u>
Public works	226,243		
Health and human services	5,257		
Culture and recreation	22,010		
	<u>\$ 887,554</u>		

#### **E. Purchased Power Working Capital**

The PMLD is a member and participant of the Massachusetts Municipal Wholesale Electric Company (“MMWEC”). The purchased power working capital is an amount held by MMWEC as an escrow. The purchased power working capital fund is replenished as needed from the PMLD’s monthly invoice payments. The income earned from the purchased power working capital fund applicable to the PMLD’s deposit is applied as a credit to MMWEC’s power sales billings. The balance in the purchased power working capital funds as of December 31, 2013 is \$439,507 and is reported as a deferred outflow of resources.

#### **F. Temporary Debt**

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary borrowings are accounted for in the general fund and enterprise funds, respectively. The Town did not have any temporary borrowings in fiscal year 2014.

#### **G. Long-term Obligations**

The Town issues general obligation bonds and notes and capital leases to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

The following reflects the current year activity (the PMLD's activity is for the year ended December 31, 2013) in the long-term liability accounts:

Description of Issue	Beginning Balance *	Additions	Deductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 9,561,430	\$ -	\$ (847,697)	\$ 8,713,733	\$ 837,697
Capital lease obligations	258,589	-	(30,681)	227,908	32,405
Compensated absences	85,157	-	(21,697)	63,460	15,865
Other postemployment benefits	469,835	359,861	(58,784)	770,912	-
Total Governmental Activities	<u>\$ 10,375,011</u>	<u>\$ 359,861</u>	<u>\$ (958,859)</u>	<u>\$ 9,776,013</u>	<u>\$ 885,967</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds and notes payable	\$ 150,000	\$ -	\$ (25,000)	\$ 125,000	\$ 25,000
Compensated absences	740	1,625	-	2,365	591
Other postemployment benefits	21,111	16,169	(2,641)	34,639	-
Total Water	<u>171,851</u>	<u>17,794</u>	<u>(27,641)</u>	<u>162,004</u>	<u>25,591</u>
<i>Business-Type Activities - PMLD:</i>					
Other postemployment benefits	55,961	61,638	(32,806)	84,793	-
Total PMLD	<u>55,961</u>	<u>61,638</u>	<u>(32,806)</u>	<u>84,793</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 227,812</u>	<u>\$ 79,432</u>	<u>\$ (60,447)</u>	<u>\$ 246,797</u>	<u>\$ 25,591</u>

\* Certain restatements have been made to the beginning other postemployment benefits obligations in both the governmental activities and the water enterprise. Refer to Note V to these financial statements.

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the water and PMLD enterprise funds.

General obligation bonds and notes payable outstanding at June 30, 2014 were as follows:

Description of Issue	Interest Rates	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.50 - 5.00%	\$ 9,500,000	\$ -	\$ (840,000)	\$ 8,660,000
MWPAT notes payable	4.50 - 5.63%	61,430	-	(7,697)	53,733
Total Governmental Activities		<u>\$ 9,561,430</u>	<u>\$ -</u>	<u>\$ (847,697)</u>	<u>\$ 8,713,733</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds	3.97 - 4.65	\$ 150,000	\$ -	\$ (25,000)	\$ 125,000
Total Water		<u>150,000</u>	<u>-</u>	<u>(25,000)</u>	<u>125,000</u>
Total Business-Type Activities		<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ 125,000</u>

Payments on outstanding general obligation bonds and notes payable due in future years consist of the following:

Year Ending June 30,	Principal			Interest		
	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy
<i>Governmental Activities</i>						
2015	\$ 837,697	\$ -	\$ 837,697	\$ 372,710	\$ (2,749)	\$ 369,961
2016	832,698	-	832,698	340,643	(2,316)	338,327
2017	827,697	-	827,697	308,724	(1,883)	306,841
2018	827,698	-	827,698	273,525	(1,450)	272,075
2019	827,697	-	827,697	234,893	(1,017)	233,876
2020-2024	2,115,246	-	2,115,246	798,505	(796)	797,709
2025-2029	1,445,000	-	1,445,000	384,672	-	384,672
2030-2034	250,000	-	250,000	196,875	-	196,875
2035-2039	250,000	-	250,000	142,188	-	142,188
2040-2044	250,000	-	250,000	87,500	-	87,500
2045-2049	250,000	-	250,000	32,812	-	32,812
Total	<u>\$ 8,713,733</u>	<u>\$ -</u>	<u>\$ 8,713,733</u>	<u>\$ 3,173,047</u>	<u>\$ (10,211)</u>	<u>\$ 3,162,836</u>
<i>Business-Type Activities</i>						
2015	\$ 25,000	\$ -	\$ 25,000	\$ 5,788	\$ -	\$ 5,788
2016	25,000	-	25,000	4,635	-	4,635
2017	25,000	-	25,000	3,480	-	3,480
2018	25,000	-	25,000	2,322	-	2,322
2019	25,000	-	25,000	1,162	-	1,162
	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 17,387</u>	<u>\$ -</u>	<u>\$ 17,387</u>

The Town is party to several non-cancellable leases for the purchase of an ambulance, police cruiser and a front-end loader. For financial reporting purposes, these leases are accounted for as capital leases. The future minimum lease payments on these capital lease obligations and the net present value of these minimum lease payments as of June 30, 2014 are as follows:

Fiscal Year Ended June 30,	Amount
2015	\$ 42,023
2016	42,023
2017	42,023
2018	42,023
2019	42,023
2020 - 2021	<u>54,057</u>
Total minimum lease payments	264,172
Less amount representing interest	<u>(36,264)</u>
Present value of minimum lease payments	<u>\$ 227,908</u>

Assets acquired through capital leases are as follows:

<u>Asset Description</u>	<u>Amount</u>
Front end loader	\$ 230,000
Ambulance	146,900
Police cruiser	33,423
Less accumulated depreciation	<u>(189,632)</u>
Net carrying value	<u>\$ 220,691</u>

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2014 was approximately \$21.5 million based on an equalized valuation of nearly \$431 million.

### **III. Other Information**

#### **A. Retirement Systems**

Retirement System Description – The Town contributes to the Worcester County Retirement System (the “Retirement System”), a multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The Retirement System was established under Chapter 32 of MGL and is administered by the Worcester Regional Retirement Board (the “Retirement Board”).

Substantially all employees of the Town participate in the Retirement System. The Retirement System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Retirement Board and are borne by the Retirement System. The Retirement System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’ Public Employee Retirement Administration Commission that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester Regional Retirement System, 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Funding Policy – Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town’s contributions to the Retirement System for the fiscal years ended June 30, 2014, 2013, and 2012 were \$374,994, \$327,926 and \$300,839, respectively. These contributions were equal to the required contribution for each year as set by the Retirement Board. Schedules of funding progress and contribution funding are included as required supplementary information.



Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan – Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$115,829 for the year ended June 30, 2014 and were made entirely by the Commonwealth on behalf of the Town, which does not contribute directly to this retirement system.

## **B. Other Postemployment Benefits (OPEB)**

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the “Plan”). The Plan provides medical insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 39 active employees and 13 retired employees for a total of 52 participants.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees currently contribute 60% of the costs for medical insurance; the Town pays the remainder.

The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost is calculated based on the annual required contribution, or ARC, of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town’s OPEB obligation:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution ("ARC")	\$ 363,859	\$ 77,923	\$ 441,782
Interest on net OPEB obligation	18,794	1,375	20,169
Adjustment to ARC	(22,792)	(1,491)	(24,283)
Annual OPEB cost	359,861	77,807	437,668
Contributions made	(58,784)	(35,447)	(94,231)
Increase in net OPEB obligation	301,077	42,360	343,437
Net OPEB obligation - beginning of year	469,835	77,072	546,907
Net OPEB obligation - end of year	\$ 770,912	\$ 119,432	\$ 890,344

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost (AOPEBC)	Percent of AOPEBC Contributed	Net OPEB Obligation
June 30, 2014	\$ 437,668 *	22.0%	\$ 890,344
June 30, 2013	446,838	18.8%	546,907
June 30, 2012	165,150	29.0%	192,514

\* Reflected in the statement of Activities as follows:

The AOPEBC for the year ended June 30, 2014 was charged to the following functional programs: General Government \$52,010; Public Safety \$224,789; Public Works \$55,742; Health and Human Services \$11,004; Culture and Recreation \$16,316; Water \$16,169; and PMLD \$61,638.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014, based on the most recent actuarial valuation performed as of July 1, 2012, was as follows:

Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$ 163,814	\$ 3,938,766	\$ 3,774,952	4.2%	\$ 2,651,331	142.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and 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 the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

Valuation date:	July 1, 2012
Actuarial cost method	Alternative method – entry age normal cost method
Amortization method	30 years, level dollar
Investment rate of return:	4.0%
Projected salary increases:	2.0 %
Healthcare/Medical cost trend rate:	5.0% in year 1; increasing by 1.0% to the ultimate rate of 6.0% per year

### **C. Risk Financing**

The Town is exposed to various risks of loss related to general liability; torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The PMLD participates in the Massachusetts Municipal Utility Self-Insurance Trust Fund (the “Trust”) with seventeen other Massachusetts municipalities for the purpose of sharing excess liability and officers’ liability risks. General liability coverage provides for \$500,000 per occurrence, with a \$50,000 deductible. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible. Each participating municipality contributes to the Trust based on its share of the group’s total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets or, if required, additional contributions from the participants. The PMLD does not present estimated claims incurred but not reported as of December 31, 2013 as its pro rata share of these costs is no material to its financial statements.

### **D. Commitments and Contingencies**

General – During its day-to-day operations, the Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters in these situations cannot be reasonably estimated. Although the amount of liability, if any, in these situations at June 30, 2014, cannot be determined, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2014.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). All of these cases pertain to the telephone and telegraph companies, who have challenged their assessed values of personal property. In total, the assessed values for ATB cases related to telephone and telegraph companies was approximately \$68,000 at June 30, 2014.

Grants – Other amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town does not believe it has failed to comply with any of these agreements.

MMWEC Participation – The PMLD is a participant in certain projects of the MMWEC.

MMWEC is a public corporation and a political subdivision of the Commonwealth, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (“Projects”). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (“Project Capability”) of each of its Projects to its Members and other utilities (“Project Participants”) under Power Sales Agreements (“PSAs”). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC’s costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC’s debt service to be paid into a Reserve and Contingency Fund.

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

PMLD has entered into PSAs and Power Purchase Agreements (“PPAs”) with MMWEC. Under both the PSAs and PPAs, the PMLD is required to make certain payments to MMWEC payable solely from PMLD revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

Berkshire Wind Cooperative – The PMLD is a member of the Berkshire Wind Cooperation Corporation (the “Cooperative”). The Cooperative was formed by the MMWEC and fourteen municipal light departments (the “Members”) for the purpose of financing, owning, constructing and operating certain wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (“Berkshire Wind Facility”).

The Cooperative has constructed ten 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (“Capability”) to the Members under PPAs. Among other things, the PPAs require each Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Member fail to make any payment

when due, other cooperative members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative's cost of owning and operating the Berkshire Wind Facility.

The PMLD has entered into a PPA with the Cooperative. Under the PPA, each participant is unconditionally obligated to make all payments due to the Cooperative, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the PMLD is required to pay to the Cooperative its share of the operation and maintenance costs of the Berkshire Wind Facility.

As of December 31, 2013, total capital expenditures for the Berkshire Wind Facility amounted to \$58,990,077, of which \$2,485,000 presents the amount associated with the PMLD's share of the Capability of the Berkshire Wind Facility, of which it is a Member, although such amount is not allocated to the PMLD. The Cooperative's debt outstanding for the Berkshire Wind Facility includes bonds totaling \$60,210,000, of which \$2,536,000 is associated with the PMLD's share of Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the PMLD.

As of December 31, 2013, the Cooperative's total future debt service requirement on outstanding bonds issued for certain projects of the MMWEC (the "Projects") is \$91,789,000, of which \$3,866,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of the PMLD required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2013 and estimated for future years is as follows:

<u>For Years Ending December 31,</u>	
2014	\$ 227,000
2015	227,000
2016	228,000
2017	228,000
2018	228,000
2019 to 2023	1,136,000
2024 to 2028	1,137,000
2029 to 2030	<u>455,000</u>
	<u><u>\$ 3,866,000</u></u>

*MMWEC Commitments and Litigation* – Through membership in MMWEC, the PMLD is contingently liable on the various projects in which they participate as detailed below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution with respect to the bonds of that Project. The MMWEC revenues derived from

each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. ("DNCI"), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC ("NextEra Seabrook") the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (the "Act"). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC's Projects amounted to \$1,607,269,000, of which \$11,646,000 represents the amount associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$225,280,000, of which \$1,603,000 is associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. As of December 31, 2013, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$218,518,000, of which \$1,559,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of PMLD's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2013 and estimated for future years is shown below.

<u>For Years Ending December 31,</u>	<u>Annual Costs</u>
2014	\$ 466,000
2015	438,000
2016	393,000
2017	189,000
2018	43,000
2019	30,000
	<u>\$ 1,559,000</u>

#### **IV. Implementation of GASB Pronouncements**

##### **A. Current Year Implementations**

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provided other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement became effective in fiscal year 2014 and did not have a material effect on the Town.

In March 2012, the GASB issued GASB Statement No. 66, *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement was to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement became effective in fiscal year 2014 and did not have a material effect on the Town.

##### **B. Future Year Implementations**

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement become effective for the Worcester Regional

Retirement System as of December 31, 2014 and will have a material impact on the Town for its fiscal year 2015.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date — an amendment of GASB Statement No. 68*, in November 2013 to amend certain provisions regarding the application of transition provisions of Statement 68. The provisions of these Statements become effective in fiscal year 2015 and will have a material effect on the Town.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

## V. Prior Period Restatement

The following tables illustrate restatements made to the Town's June 30, 2013 net position:

	Water	Electric Light	Total
Net position at June 30, 2013, as previously reported	\$ 2,361,161	\$ 4,460,775	\$ 6,821,936
Record adjustments to capital assets, net	(151,914)	-	(151,914)
Record earned but unbilled water usage revenues	69,920	-	69,920
Reclass water enterprise OPEB obligation	(21,111)	-	(21,111)
Net position at June 30, 2013, as restated	<u>\$ 2,258,056</u>	<u>\$ 4,460,775</u>	<u>\$ 6,718,831</u>



	Governmental Activities	Business-Type Activities	Total
Net position at June 30, 2013, as previously reported	\$ 13,102,140	\$ 6,821,936	\$ 19,924,076
Record adjustments to capital assets, net	(29,668)	(151,914)	(181,582)
Record earned but unbilled water usage revenues	-	69,920	69,920
Reclass water enterprise OPEB obligation	21,111	(21,111)	-
Net position at June 30, 2013, as restated	<u>\$ 13,093,583</u>	<u>\$ 6,718,831</u>	<u>\$ 19,812,414</u>

\* \* \* \* \*

**TOWN OF PAXTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2014**

**SCHEDULES OF FUNDING PROGRESS**

**Pension System – Worcester Regional Retirement System (All Participants)**

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)
1/1/2014	\$ 488,346,471	\$ 1,087,769,903	\$ 599,423,432	44.9%	\$ 252,829,591	237.1%
1/1/2012	436,671,982	982,796,782	546,124,800	44.4%	238,952,079	228.5%
1/1/2010	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.6%

**Other Postemployment Benefits**

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)
7/1/2012	\$ 163,814	\$ 3,938,766	\$ 3,774,952	4.2%	\$ 2,651,331	142.4%
7/1/2009	163,814	1,511,107	1,347,293	10.8%	2,583,370	52.2%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Pension System**

Year Ended June 30,	Worcester Regional Retirement System			Town (B / A)	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	Town's Percentage of System Wide Actual Contributions
2014	\$ 37,510,611	\$ 37,510,611	100%	\$ 374,994	1.0%
2013	35,056,320	35,056,320	100%	327,926	0.9%
2012	33,072,000	33,072,000	100%	300,839	0.9%

**Other Postemployment Benefits**

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2014	\$ 437,668	\$ 77,731	17.8%
2013	436,572	85,179	19.5%
2012	165,153	48,573	29.4%

See accompanying independent auditor's report.

## TOWN OF PAXTON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Positive
	Budget	Budget	Amounts		Adjusted	(Negative)
<b>Revenues:</b>						
Real estate and personal property	\$ 8,734,611	\$ 8,734,611	\$ 8,824,298		\$ 8,824,298	\$ 89,687
Intergovernmental	925,056	925,056	973,900		973,900	48,844
Motor vehicle and other excises	560,565	560,565	639,447		639,447	78,882
Licenses and permits	58,000	58,000	61,195		61,195	3,195
Departmental and other revenue	381,600	381,600	374,433		374,433	(7,167)
Penalties and interest	29,000	29,000	24,075		24,075	(4,925)
Fines and forfeitures	9,000	9,000	12,991		12,991	3,991
Investment income	5,500	5,500	8,191		8,191	2,691
Total Revenues	<u>10,703,332</u>	<u>10,703,332</u>	<u>10,918,530</u>		<u>10,918,530</u>	<u>215,198</u>
<b>Expenditures:</b>						
General government	798,115	798,115	719,805	\$ 16,642	736,447	61,668
Public safety	1,601,903	1,601,903	1,580,975	2,052	1,583,027	18,876
Education	5,536,536	5,536,536	5,536,536	-	5,536,536	-
Public works	971,381	971,381	947,537	-	947,537	23,844
Health and human services	80,527	80,527	77,381	-	77,381	3,146
Culture and recreation	183,370	183,370	181,765	66	181,831	1,539
Fringe and pension benefits	706,763	706,763	681,135	190	681,325	25,438
State and county tax assessments	52,787	52,787	55,343	-	55,343	(2,556)
Debt service	1,248,676	1,248,676	1,248,674	-	1,248,674	2
Total Expenditures	<u>11,180,058</u>	<u>11,180,058</u>	<u>11,029,151</u>	<u>\$ 18,950</u>	<u>11,048,101</u>	<u>131,957</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	163,212	163,212	163,212		163,212	-
Transfers out	(262,335)	(262,335)	(262,335)		(262,335)	-
Total Other Financing Sources (Uses)	<u>(99,123)</u>	<u>(99,123)</u>	<u>(99,123)</u>		<u>(99,123)</u>	<u>-</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(575,849)</u>	<u>(575,849)</u>	<u>\$ (209,744)</u>		<u>\$ (228,694)</u>	<u>\$ 347,155</u>
<b>Other Budgetary Items:</b>						
Prior year encumbrances	9,849	9,849				
Free cash	584,222	584,222				
Other	(18,222)	(18,222)				
Total Other Budgetary Items	<u>575,849</u>	<u>575,849</u>				
<b>Net Budget</b>	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

# TOWN OF PAXTON, MASSACHUSETTS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2014

### I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and each enterprise fund. Financial orders are initiated by the Town Administrator, recommended by the Town Finance Committee and approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2014, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 10,918,530
Stabilization revenue	\$ -	\$ 12,013	12,013
Change in accruing revenues to GAAP basis	(7,466)	-	(7,466)
MWPAT interest subsidy	3,183	-	3,183
On behalf payments	115,829	-	115,829
Revenues on a GAAP basis	<u>\$ 115,829</u>	<u>\$ -</u>	<u>\$ 11,042,089</u>
Expenditures on a budgetary basis			\$ 11,029,151
MWPAT interest subsidy	\$ 3,183	\$ -	3,183
On behalf payments	115,829	-	115,829
Expenditures on a GAAP basis	<u>\$ 115,829</u>	<u>\$ -</u>	<u>\$ 11,148,163</u>
Other financing sources (uses) on a budgetary basis			\$ (99,123)
Stabilization transfer	\$ -	\$ 126,318	126,318
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 126,318</u>	<u>\$ 27,195</u>

Appropriation Deficits – During fiscal year 2014, expenditures exceeded appropriations in the general fund for state and county charges of \$2,556. These were closed out to general fund balance at year-end.



**INDEPENDENT AUDITORS' 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**

The Honorable Members of the Board of Selectmen  
Town of Paxton, Massachusetts

We have audited, 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, the financial statements of the Town of Paxton, Massachusetts (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 26, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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's financial statements are free of 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.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 26, 2015